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Auditor General

Annual Report

To the
Legislative
Assembly of
British Columbia

March 1990

British Columbia Cataloguing in Publication Data

British Columbia. Office of the Auditor General.
Report of the Auditor General. — 1978 —

Annual.
Report year ends Mar. 31.
ISSN 0708-5222 = Report of the Auditor General (Victoria)

1. Finance, Public—British Columbia—Accounting—Periodicals.

HJ9921.Z9B73 354'.711'007232

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The Honourable Melville B. Couvelier
Minister of Finance and Corporate Relations
Province of British Columbia

Sir:

I have the honour to transmit herewith my Annual Report to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of Section 10 of the Auditor General Act, R.S.B.C. 1979, chapter 24.

George L. Morfitt, F.C.A.
Auditor General

George L. Morfitt

Victoria, British Columbia
April 30, 1990

Annual Report of the Auditor General

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Auditor General's Overview

Auditor General's Overview

As Auditor General of British Columbia, I am given the responsibility by the Legislative Assembly to audit the operations of the provincial government, and to regularly report to the Assembly the results of my work. In carrying out this mandate, I provide independent audit opinions on the annual financial statements of the government and various of its funds, corporations and agencies. Additionally, I provide, on a cyclical basis, comprehensive assessments of government's management processes and procedures.

My professional purpose is two-fold: to advise the Legislative Assembly on the state of government's operational management and financial reporting; and to promote the economic and efficient conduct of government programs.

This 1990 Report, the 12th Annual Report issued by my Office, provides legislators and the public with a synopsis of the opinions, observations and recommendations resulting from the audit work undertaken by my Office over the past 12 months. The Report also includes written comment received from the government in response to our audits, reviews and studies, as well as follow-up ministry responses to the matters covered in my 1989 Annual Report.

This year's Report is in five parts.

Part I

Volumes I and III of the annual Public Accounts contain financial statements for which I provide independent audit opinions. These statements pertain to a variety of government entities, such as funds, Crown corporations, Crown agencies, and financing authorities.

It is essential that the legislature and public understand well the form and content, as well as the audit considerations, relating to each of these sets of financial statements. The information contained in Part I of this report is intended to assist with that understanding.

Given the large number of financial statements included in the Public Accounts, I believe it important that the Consolidated Financial Statements (Volume I, Section C) be identified as those statements which provide the most inclusive financial reporting of the results of overall government operations. In this regard I have, for the 1988/89 fiscal year, added an explanatory paragraph to my audit opinions on the General Fund and Combined financial statements (Volume I, Sections A and B).

In my last year's Report, I commented on the lack of timeliness by which the annual Public Accounts of the government are made public. Similarly, the Public Accounts Committee, in its July 1989 report to the Legislative Assembly, recommended that the government consider how the Public Accounts might be "made publicly available as soon as possible after the end of the fiscal year for which they have been completed." For the 1988/89 fiscal year the situation remains unchanged: the Public Accounts were not issued until more than 12 months after the March 31, 1989 fiscal yearend.

Part II

An integral part of the audit process is the cyclical review of the internal control systems employed by government in the conduct of its operations. This year we examined five ministry systems, as well as the across-government procedures for managing the collection of accounts receivable. I am pleased to note that government responses to our review findings indicate a positive intent by public officials to proceed with early implementation of many of our systems recommendations.

Part III

Several value-for-money audits were undertaken during the year. Our ministry-centred audits concentrated on programs within the Ministry of Transportation and Highways. Significant changes have taken place in that ministry over the past two years, and this Report provides timely independent audit assessments of the state of the ministry's organization and its operational programs.

Our work in the Ministry of Transportation and Highways is ongoing, and further comment on ministry operations will be provided in my 1991 Annual Report.

Last year my Office conducted reviews of procedures and of selected transactions relating to the government's privatization program. This year we have continued our review of this program by examining one of the largest of the privatizations completed during the past year - the sale of the Westwood Plateau property in Coquitlam by the British Columbia Enterprise Corporation. Except that there was no financial analysis prepared that would have permitted an evaluation of the sale of the land in more than one parcel, we believe the process followed by the Corporation provided the information needed to evaluate the value-for-money results of this privatization.

The government's privatization program moved into a new phase during the past year. Companies that purchased government operations in earlier privatizations began providing services to the government under the service contracts that formed part of the privatization agreements. Accordingly, we examined the way in which the government managed the service contracts that were an integral part of three earlier privatizations environmental laboratory services, road and bridge maintenance, and highway signs. As the contracts were for disparate types of services, and involved more than one ministry, our assessments, as might be expected, varied.

During the past few years, the government has sold a large number of land holdings. Several of these sales have generated considerable public interest and led to questions as to whether the processes used by government to sell properties have been appropriate, and whether the processes ensured that fair value was received for the properties. This Annual Report includes an examination of the processes used by government to acquire and dispose of land. We concluded that the buying and selling of real estate properties was generally well handled by the ministries and Crown corporations that we reviewed.

Part IV

Nearly one-half of government operations are conducted through Crown corporations. It is therefore important that there be a comprehensive and timely reporting to the Legislative Assembly of Crown corporation plans and operating results.

My Office has conducted a detailed review of this aspect of government accountability and has concluded that, while reporting by some Crown corporations is improving, in general they are not providing enough information to the Legislative Assembly about their operational performance and objectives. We believe there is a need to design a consistent and objective framework for accountability reporting for the major Crown corporations.

Part V

Each year I undertake to review certain of those programs and procedures of government which I believe may be of particular interest to the Legislative Assembly. During this past year we examined various aspects of: lottery grants, public gaming, reporting of privatization transactions, and government fraud policies. The study entitled, "The Lottery Fund: An Audit of the Granting Process" was first issued on February 27, 1990 as a special report to the Legislative Assembly.

Each of these reviews contains important observations and recommendations which are intended to encourage the economic and efficient use of public resources for the greatest public good.

Part VI

Part VI of this Report provides information as to the mandate, mission and administration of my Office. In it are described my responsibilities to the Legislative Assembly and the means employed to properly discharge those responsibilities.

I wish to thank the officers and staff of the ministries and public bodies audited by my Office for their helpful assistance and cooperation. We were provided with all of the information and explanations we required in the conduct of our work.

I also extend my appreciation to the staff of my Office for the very thorough and professional manner in which they have carried out their audit responsibilities, and for their unfailing commitment to serving the legislature and the public.

George L. Morfitt

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
March 29, 1990

Part I:
The Public Accounts

Part I: The Public Accounts

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The Public Accounts

Introduction

The Public Accounts of the Province of British Columbia are an important link in a chain of financial accountability. They are the formal means by which the government reports to the Legislative Assembly, and to all British Columbians, on its stewardship of public funds.

This part of the Auditor General's Annual Report contains comments and observations about the financial statements of the government for the fiscal year ended March 31, 1989, based on audit work conducted in accordance with the requirements of the *Auditor General Act*. It also refers to audits of the financial statements of various Crown corporations and other public bodies, in particular those for which the Auditor General is the appointed auditor.

Contents of the Public Accounts

The Public Accounts are the documents that contain the audited financial statements of the government and such other financial information presented to the Legislative Assembly to show compliance with the various statutory authorities.

The *Financial Administration Act* requires the Treasury Board to establish the form and content of the Public Accounts, as well as the accounting policies of the government. The Act also requires the Comptroller General to prepare the government's financial statements for each fiscal year ending March 31, in accordance with these policies.

The Public Accounts are published in three volumes:

Volume I contains the audited financial statements of the government. It also contains a number of unaudited supplementary schedules to the financial statements, as well as certain other accountability information of a financial nature.

Volume II is comprised of detailed schedules of salaries, wages, travel expenses and other payments made by the government during the fiscal year. The Auditor General does not examine or express an opinion on the data contained in this volume of the Public Accounts.

Volume III presents the financial statements of Crown corporations and other government agencies, and those of certain trust funds under government administration.

The government also publishes the *Public Accounts Digest* which summarizes and interprets certain of the information contained in the government's financial statements.

Financial Statement Audits

The Auditor General's Mandate

The Auditor General is required, under the provisions of Sections 6 and 7 of the *Auditor General Act*, to examine the accounts and records of the government and to report annually to the Legislative Assembly on the government's financial statements. In these reports, the Auditor General must state whether he has received all the information and explanations he has required, and whether, in his opinion, the statements present fairly the financial position, results of operations, and changes in financial position of the government in accordance with its stated accounting policies, and whether such policies are consistently applied. If he is unable to express his opinion without reservation, he is required to state the reasons why.

The Auditor General is also eligible to be appointed the auditor of a Crown corporation, Crown agency or public body. While the Act does not specify what is required of the Auditor General in the conduct of such audits, the mandate is assumed to be similar to that for the audit of the government's financial statements.

Purpose and Value of the Audit

The government's financial statements and those of Crown corporations and other public bodies serve the interests of a wide variety of users, including Members of the Legislative Assembly, the general public, investors, and analysts. It is therefore important that the financial information presented in the statements be viewed by these users as being credible.

The audit process, culminating in the Auditor General's reports on the financial statements, helps assure the users of those statements that the information contained in them is reliable. Also, the audit ascertains, with respect to the transactions examined, whether or not the relevant legislation and regulations governing the administration of public funds have been complied with. Furthermore, the very existence of an annual independent audit has a salutary effect on the reliability of accounting work and internal control systems throughout government and public body organizations.

The Audit Process

The Auditor General, through the work of his staff, carries out extensive examinations of the accounts and records maintained by the various ministries and central agencies of government, and by the Crown corporations and other public bodies of which he is the auditor. These examinations are conducted in accordance with "generally accepted auditing standards," as prescribed by the Canadian Institute of Chartered Accountants (CICA). These standards relate to the professional qualities of auditors, the performance of their examinations, and the preparation of their reports. In addition to these general standards, the Auditor General recognizes, in the conduct of his work, the various recommendations made by the Public Sector Accounting and Auditing Committee of the CICA.

It is important to realize that an auditor's opinion on a set of financial statements does not guarantee the absolute accuracy of the statements. In the audit of any large organization it is neither feasible nor economically desirable to examine every financial transaction. Instead, a sampling of transactions is carried out by the auditor in a manner designed to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader.

When determining the nature and extent of work required to provide such assurance, the auditor considers two important factors: *materiality* and *audit assurance*.

- *Materiality* relates to the aggregate amount which, if in error, would affect the substance of the information reported in the financial statements, to the extent that the reader's judgment, based on information contained in the financial statements, would be affected.
- *Audit assurance* represents how certain the auditor wants to be that his audit will discover errors in the financial statements, errors which in total exceed materiality.

In planning his audits of financial statements, the Auditor General exercises his professional judgment in determining these two key factors. This, to a large degree, establishes the nature and extent of the audit work to be undertaken.

Results of the Audit

As a result of the examinations carried out, the Auditor General has been able to provide audit opinions on the government's financial statements for the fiscal year ended March 31,1989, and on those of 27 Crown corporations and other public bodies whose fiscal year-ends occurred on that date or during the fiscal year then ended. Reports containing the Auditor General's audit opinions, together with the government's financial statements to which they relate, appear in Appendix H of this Annual Report. The Auditor General's reports and related financial statements for the Crown corporations and other public bodies he audits are contained in Volume III of the Public Accounts.

In the process of these examinations, numerous matters are brought to light which call for study and corrective action by the ministries, central agencies, and public bodies concerned. We deal with these matters through direct contact with officials of these organizations.

Certain of these matters are considered to warrant the attention of the Legislative Assembly, and are commented on in the Auditor General's Annual Report. Those arising as a result of our audit of the government's financial statements appear immediately following this section of the report. Those concerning our audit of public bodies are contained in the report section titled "Comments on the Financial Statements of Public Bodies."

Comments on the Government's Financial Statements

Identifying the Summary Financial Statements of Government

Defining the Government Reporting Entity

In conjunction with its enactment in 1981 of the *Financial Administration Act*, the Government of British Columbia began producing annual consolidated summary-level financial statements. It was one of the first government jurisdictions in Canada to do so.

The year 1981 also saw the establishment of the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants (CICA), formed to assist in improving and harmonizing public sector financial reporting, accounting and auditing practices in Canada. This it does by issuing statements from time to time on matters of accounting and auditing in the public sector. Further description of the committee's work is provided in Part VI of this report.

In November 1988, the committee issued its Public Sector Accounting Statement 4, titled "Defining the Government Reporting Entity." This statement defines the scope of the reporting entity in terms of the organizations whose financial affairs and resources should be accounted for in government financial statements. It includes recommendations on accounting for and reporting the financial affairs of those organizations. As well, it proposes the methods by which governments should determine what constitutes the government reporting entity and how the applicable components should be brought together to form a proper set of summary financial statements.

It is worthy of note that a considerable portion of this statement of standards is patterned on the approaches which were already being followed by British Columbia and Alberta in preparing their consolidated financial statements.

The committee's Statement 4 is consistent with its previously issued Accounting Statement 2, "Objectives of Government Financial Statements" (November 1984), in defining government financial statements as "the summary financial statements prepared by a government to report on its financial condition and results of operations." In order that the summary statements may provide an accounting of the full nature and extent of the financial activities for which the government is responsible, the committee recommends that the statements include information relating to all funds, agencies and enterprises which are accountable for the administration of their financial affairs and resources, either to a minister of the government or directly to the legislature, and which are owned or controlled by the government.

We encourage closer adherence by the Government of British Columbia to the recommendations in Statement 4, although the intent of some of these are subject to further clarification. Of particular interest is the question of the appropriateness of including or excluding in summary financial statements such entities as workers' compensation boards, public insurance corporations, and hospitals whose governing boards include a majority of government appointees.

Nonetheless, we recommend that the composition of the government's consolidated financial reporting entity be carefully redeveloped to correspond as closely as possible to the standards set out in Statement 4.

At the same time, it is recognized that the summary financial statements of government cannot be expected to fulfill all of the needs of the variety of users served by a government's financial reporting system. These statements are not intended to replace the separate financial statements of individual government funds, agencies and corporations, as the latter constitute important accountability reports by their managements. However, such separate financial statements do not give legislators, investors and other users an understandable overview of the total financial affairs and resources for which the government is responsible. Only summary financial statements can provide that overview.

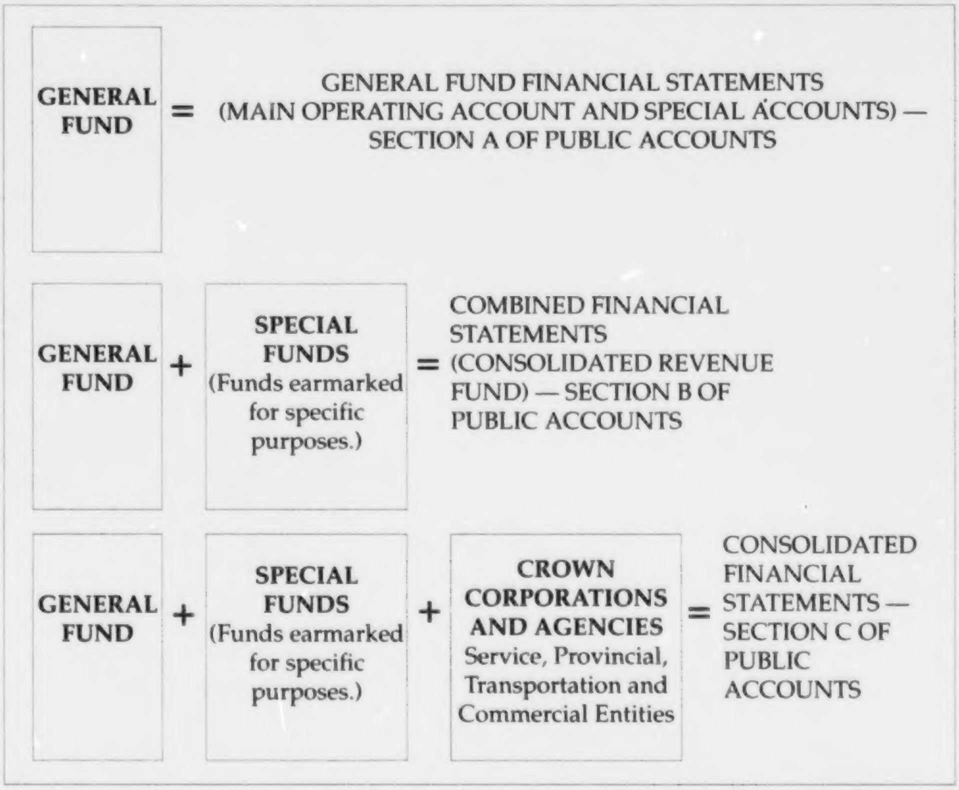
The government has published three sets of financial statements for the fiscal year ended March 31, 1989. They are described as follows in the "Introduction to the Public Accounts" which prefaces Volume I of the Public Accounts:

General Fund Financial Statements - these statements contain the operating activities of the Government including special accounts.

Combined Financial Statements - these statements include the accounts of the Consolidated Revenue Fund, combining the activities of the General Fund (main operating account and special accounts), with funds earmarked for specific purposes, Special Funds.

Consolidated Financial Statements - these statements have been prepared to disclose the economic impact of the Government's activities. They aggregate the Consolidated Revenue Fund and certain Crown corporations: namely, those Crown corporations which exist to service the Government ("service" corporations) and those Crown corporations which conduct Government programs ("provincial" corporations). Crown corporations which are intended to be run on commercial lines are recorded on a modified equity basis.

Given the inclusive scope and content of the Consolidated Financial Statements, they most closely meet the criteria proposed by the CICA for the summary financial statements of government. Accordingly, the Auditor General has, for some time, suggested that the Consolidated Financial Statements be given more prominence by being presented as the main financial statements of the government.


GENERAL FUND
=
GENERAL FUND FINANCIAL STATEMENTS (MAIN OPERATING ACCOUNT AND SPECIAL ACCOUNTS) — SECTION A OF PUBLIC ACCOUNTS
GENERAL FUND
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SPECIAL FUNDS (Funds earmarked for specific purposes.)
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COMBINED FINANCIAL STATEMENTS (CONSOLIDATED REVENUE FUND) — SECTION B OF PUBLIC ACCOUNTS
GENERAL FUND
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SPECIAL FUNDS (Funds earmarked for specific purposes.)
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CROWN CORPORATIONS AND AGENCIES Service, Provincial, Transportation and Commercial Entities
=
CONSOLIDATED FINANCIAL STATEMENTS — SECTION C OF PUBLIC ACCOUNTS

FIGURE 1.1

The Government's Financial Statements, extracted from the "Introduction to the Public Accounts," illustrates the relationship among the three sets of financial statements.

Despite this recommendation, the Consolidated Financial Statements continue to be published as the third set of financial statements within Volume I of the Public Accounts. This is in contrast with other provincial jurisdictions which arrange the order of publication of their financial results from most inclusive to least inclusive.

As well, the *Public Accounts Digest* and other official publications and pronouncements make constant reference to the General Fund, with scant, if any, reference to the results of government operations as reflected in either the Combined or Consolidated Financial Statements.

The *Economic and Statistical Review* issued by the Minister of Finance and Corporate Relations in October 1989 goes so far as to state, in a reference to the government's accounting policies, that "The main reporting entity for 1988/89 is the General Fund" (p. 175).

Content of the Government's Consolidated Financial Statements

The government's 1988/89 Consolidated Financial Statements do not conform with the content requirements for government financial statements set out in the Public Sector Accounting Statements issued by the CICA. Also, although not specifically required to do so, these statements do not in themselves contain all the information called for in the *Financial Administration Act* (FAA). For example: FAA section 8(2)(b) requires the government's financial statements to contain information about "the money appropriated, the money expended and the money unexpended for that fiscal year." This information is now only presented with the government's General Fund Financial Statements. And, Public Sector Accounting Statement 3, issued by the CICA in November 1986, recommends the specific reporting of "changes in valuation allowances in the accounting period." Such reporting does not occur in the government's Consolidated Financial Statements, nor in its other two sets of financial statements, General Fund and Combined.

The government's Consolidated Financial Statements before 1988/89 included six supplementary statements containing considerable information about the financial operations of the entities included in the main statements. In 1988/89, five of these supplementary statements were dropped:

- Operating Results of Consolidated Crown Corporations
- Equity in Commercial Enterprises
- Equity in Transportation Companies and Commercial Enterprises
- Reconciling Corporate Equity to Equity of Province
- Guaranteed Debt

While much of the information in these former supplementary statements was available for 1988/89, it was produced only in the form of internal working papers for use by the accountants and auditors involved in the financial statement preparation process. We wonder if the Treasury Board or members of the public may have had an interest in the content of these former statements. Also, given the CICA's 1988 Public Sector Accounting Statement 4, which recommends the disclosure of "condensed supplementary financial information relative to government enterprises," we were surprised by the removal of almost all the supplementary financial information about entities included in the Consolidated Financial Statements.

We recommend that the content of the government's Consolidated Financial Statements be carefully reviewed so that, in future, they meet all the requirements for government financial statements as set out in the *Financial Administration Act*, and follow, as closely as possible, the recommendations contained in the CICA's Public Sector Accounting Statements.

Addition of Explanatory Paragraphs

In the 1989 Annual Report of the Auditor General, we expressed concern with the change in emphasis in financial reporting by the government for the 1987/88 fiscal year, from the Consolidated Revenue Fund to the General Fund. We recommended that the government reconsider its method of presenting its financial position and operating results, in that we continue to believe that the Consolidated Financial Statements best reflect the overall position of the government.

In order to alert the reader of the Public Accounts for the 1988/89 fiscal year to the varying scope of government operations included in each of the three sets of financial statements presented therein, we have added explanatory paragraphs to the Auditor General's reports attached to the General Fund Financial Statements and the Combined Financial Statements. These paragraphs describe certain limitations in the scope of the financial information contained in those two sets of financial statements, and emphasize that the Consolidated Financial Statements are the summary statements of the government which provide an accounting of substantially the full nature and extent of the financial affairs and resources for which the government is responsible.

Looking to the Future

With the CICA's issuance of Public Sector Accounting Statement 4, recommendations regarding the content of summary financial statements are now available. We hope that the government will take these guidelines into consideration in preparing its Consolidated Financial Statements. Toward this end, we will be pleased to assist in the process, as may be appropriate.

As well, this Office will continue to suggest to the government that, for future fiscal years, it present its financial information in the Public Accounts from the most inclusive level to the least inclusive, as follows:

- Consolidated Financial Statements
- Combined Financial Statements
- General Fund Financial Statements
- Supplementary Schedules
- Other Financial Information

Government Financial Statement Standards

In its Public Sector Accounting Statement 2 issued in November 1984, PSAAC defined government financial statements as the summary financial statements published by a government. The Accounting Statement recommended that such financial statements "should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible including those related to the activities of government agencies and enterprises." In British Columbia, the Consolidated Financial Statements, which constitute section C of the Public Accounts, are the summary financial statements of the government.

Public Sector Accounting Statement 3 was issued by PSAAC in November 1986. This statement includes 35 recommendations on general reporting principles and standards for the disclosure of information in the summary financial statements prepared by governments.

In British Columbia's summary (Consolidated) financial statements for the fiscal year ended March 31, 1989, we consider that 22 of the 35 recommendations contained in PSAAC Accounting Statement 3 were being followed. The recommendations which are either not being followed, or being only partially followed, are these:

- *Financial statements should be issued on a timely basis.*

  Not being followed. Issuance of the government's financial statements to the public has usually been about 12 months after the end of the fiscal year to which the statements pertain.

- *The statement of financial position should report a government's liabilities at the end of the accounting period segregated by main classifications, such as:*
  - *accounts payable and accrued liabilities;*
  - *employee pension obligations;*
  - *borrowings; and*
  - *loans and advances from other governments.*

  Being only partially followed. Employee pension obligations are not included in the government's reported liabilities. Also, loans and advances from other governments are not segregated as a classification in the summary (Consolidated) financial statements. They are, however, separately disclosed in the government's General Fund and Combined Financial Statements.

- *Financial statements should disclose adequate information about the nature and terms of a government's liabilities.*

  Not being followed. Some of the information recommended for disclosure is included in the government's General Fund and Combined Financial Statements. However, even in those sets of statements, information on employee pension obligations and information to describe the nature and terms of the government's liabilities to other governments are not disclosed.

- *Financial statements should disclose adequate information about the nature and terms of a government's financial assets together with any valuation allowances.*

  Being only partially followed. In the government's summary (Consolidated) financial statements, amounts receivable from other governments are not shown (although this information is included in the General Fund and Combined Financial Statements). Also not disclosed are amounts to be repaid on demand, and appropriate descriptions of repayment dates and amounts of short-term and long-term loans and advances.

- *Valuation allowances should be used to reflect financial assets at their net recoverable or other appropriate value.*

  Being only partially followed. Valuation allowances have not been provided for amounts recoverable only through future appropriations.

- *Financial statements should disclose information to describe a government's material financial commitments at the end of the accounting period.*

  Being only partially followed. Material financial commitments should be defined and, for physical asset acquisitions involving large undertakings, estimated total costs of such projects should be disclosed.

- *Financial statements should disclose information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period.*

  Not being followed.

- *Financial statements should disclose a government's expenditures of the accounting period by object of expenditure.*

  In process of being implemented. The government's General Fund and Combined Financial Statements do include this information, and the government's accounting officials have expressed their intention to include this information in future summary (Consolidated) financial statements.

- *The statement of revenues and expenditures should report a government's revenues of the accounting period segregated by significant types of revenues from taxes, non-tax sources, and transfers from other governments.*

  Being only partially followed. Information showing the sources of the government's revenues is not included in the government's summary (Consolidated) financial statements and its Combined Financial Statements, although it is shown in the government's General Fund Financial Statements.

- *The statement of revenues and expenditures should report changes in valuation allowances in the accounting period.*

  Not being followed.

- *The statement of changes in financial position should classify cash flows by operating, investing and financing activities.*

  Being only partially followed. Cash flow information should show investments made and realized and debt financing issued and repaid during the period.

- *Financial statements should present a comparison of the actual results with those originally forecast by the fiscal plan.*

  Not being followed. This information is only shown in the government's General Fund Financial Statements.

- *Planned results should be presented on a basis consistent with that used for actual results.*

  Not being followed. This is only being done in the government's

General Fund Financial Statements.

We urge the government to work toward adopting the above-noted PSAAC accounting recommendations in its summary (Consolidated) financial statements.

Two other of the PSAAC accounting recommendations in its Public Sector Accounting Statement 3 are also worth noting because, although they are being followed in the government's summary (Consolidated) financial statements, they are being only partially followed in the government's General Fund and Combined Financial Statements. The two recommendations are:

- *Financial statements should disclose the gross amounts of expenditures.*
- *Financial statements should disclose the gross amounts of revenues.*

The government's General Fund and Combined Financial Statements are considered to be important sets of statements. Therefore, as well as adopting the previously described PSAAC accounting recommendations in the government's summary (Consolidated) financial statements, we encourage the government to adopt these two recommendations in the General Fund and Combined Financial Statements.

Special Funds

In 1988, the government established two Special Funds, the Budget Stabilization Fund and the Privatization Benefits Fund. These funds, together with the General Fund which the government refers to as its main operating account, constitute the Consolidated Revenue Fund.

The Budget Stabilization Fund was set up, according to the *Budget Stabilization Fund Act*, "to assist in stabilizing the operating revenues of the government." The Act empowered the government to transfer monies between the Budget Stabilization Fund and the General Fund in order to achieve this purpose.

The Privatization Benefits Fund was established, according to its enabling act, "to hold in perpetuity the proceeds of assets disposed of through the privatization program in order to produce revenue for the benefit of the Province."

Since their inception, there appears to have been questions in many people's minds as to the nature and impact of these Special Funds.

With reference to the Budget Stabilization Fund, when the government said that it was making transfers between that fund and the General Fund, many people assumed that separate bank or investment accounts were established to serve as depositories for the money, in the same way individuals might set up their own savings or investment accounts.

This is not what happened, however. Monies transferred by the government into the Budget Stabilization Fund to March 31, 1989, were, in effect, simultaneously loaned back to the General Fund, which then credited interest at going market rates back to the Budget Stabilization Fund in return for use of its money. Thus, the only asset of this Special Fund was an account receivable from the General Fund. There were no bank or investment accounts that could be specifically identified with the Budget Stabilization Fund. This method of accounting for the fund is essentially the same as that used for all government special funds in existence in prior years.

The Privatization Benefits Fund, on the other hand, had most of its assets as at March 31, 1989, set aside in separate cash and temporary investment accounts. The Fund's investments earn income in the normal course of events. Until March 31, 1989, the *Privatization Benefits Fund Act* required the government to pay all the accrued earnings of the fund as of March 31 of each year into the General Fund.

The Act was amended in July 1989 to allow the government to pay either all or part of the accrued earnings of the Privatization Benefits Fund to the General Fund, as and when directed by the Lieutenant Governor in Council.

Coincident with the establishment of these Special Funds, the government changed the manner in which it described the results of its financial operations to the public. Before establishing these Funds, the government used the Consolidated Revenue Fund as its main financial reporting entity, so that transactions involving special funds then in existence were combined with those of the General Fund to establish the final operating results reported by the government for the year. However, since the 1987/88 fiscal year, the government has normally referred to the transactions and balances of the General Fund alone in commenting publicly on its operating results.

Had the government continued to refer to the operating results of the Consolidated Revenue Fund (i.e., the General Fund and Special Funds combined) as it did before the 1987/88 fiscal year, it would have announced a net deficit of $48 million for the 1987/88 fiscal year and a net surplus of $727 million for the 1988/89 fiscal year. Instead, by referring to the net revenue and expenditure of the General Fund alone during the past two fiscal years, the government has announced annual deficits of $791 million and $330 million for 1987/88 and 1988/89, respectively.

Further details on the accounting for privatization transactions relating to the Privatization Benefits Fund appear in Part V of this report.

Expenditure Authorization

The Ministry of Health included an amount of $14.6 million in its 1989 year-end accounts payable for contributions to the Health Labour Relations Association (HLRA) and various hospitals and health facilities. The contributions were intended mainly to help hospitals reduce their liabilities for the unfunded amount of benefit plans administered by the HLRA.

We were unable to obtain written evidence that these contribution expenditures had been authorized by March 31, 1989, to qualify as valid expenditures of the 1988/89 fiscal year. In fact, for the largest component — a contribution of $13.5 million to the HLRA — the recipient did not receive written notification of the contribution until June 1989, and no amounts were actually paid out by the ministry until September 1989.

The government's accounting policy states that contributions are recorded as expenditure at the earlier of:

1. the date payment has been authorized; or
2. the date on which performance conditions are achieved by the recipient under provisions of a statute, contract or agreement.

The official government definition for "authorized," in the context of policies and guidelines for contributions, is contained in the Financial Administration Operating Policy Manual, Chapter 9.14.3. There it states that: "Authorized - means: for contributions, the date on which a payment is due as specified in the contract, agreement or statute."

The Ministry of Health has informed us that the expenditures in question were verbally approved at ministry executive meetings prior to March 31, 1989, and that government accounting policy does not specifically require that the authorization be documented in writing. Therefore, the ministry considers these contributions to be correctly recorded as contributions of the 1988/89 fiscal year.

We would expect such authorization to be in writing in order to adequately support the expenditure of funds and be capable of verification. Just as the ministry requires written authorization or evidence of receipt of goods and services when it incurs other expenditures, we believe that the same standards should apply to these contributions, especially given the substantial amount involved in this instance. Clearly, it is not practical for the ministry, the Office of the Comptroller General, or ourselves to rely on verbal authorizations for expenditures, either during the year or in determining which amounts should be recorded as accounts payable at the fiscal year-end.

We recommend that the government's policy and procedural manuals be amended to specify that all ministry expenditure authorizations be documented in writing, particularly those relating to statutes, contracts and agreements.

Pension Obligations

In November 1988, PSAAC issued its Public Sector Accounting Statement 5 titled, "Accounting for Employee Pension Obligations in Government Financial Statements." The statement contains recommendations relating to the accounting for pension obligations in government financial statements. It also provides guidance for implementing the recommendations.

PSAAC states that pensions are a form of compensation offered for services rendered, and accrue over the years employees render those services. Accordingly, it makes the following recommendation: "The statement of financial position should account for the pension liability and the statement of revenues and expenditures should account for the pension related expenditures on the basis of the value of the pension benefits attributed to employee service to the accounting date."

The notes to the British Columbia government's annual financial statements provide information about the unfunded liabilities of those pension funds for which the government has a statutory funding responsibility. In addition, the government records its annual contributions to these pension funds as expenditures in the Statement of Revenue and Expenditure. However, this financial statement disclosure does not meet the recommendations of Statement 5 for several reasons:

- The pension liability, representing the accumulated value of pension benefits earned and outstanding at the year-end for pension obligations arising from pension plans guaranteed by the Province, is not included on the government's Balance Sheet.
- The Statement of Revenue and Expenditure does not reflect the value of pension benefits earned by employees during the year.
- While the information provided in the financial statement notes is informative, it shows only the degree to which the pension plans guaranteed by the government are funded. This amount could differ substantially from the pension liability outstanding at the government's financial statement date.
- The notes provide no financial details on the government's pension funding obligations as they apply to Members of the Legislative Assembly.

We understand that the government wishes to work with other jurisdictions toward implementing the recommendations in Statement 5. It is also examining certain technical issues which would be involved in the implementation process, such as obtaining new actuarial valuations, disclosing interest and inflation rate assumptions, and reflecting the periodic valuation adjustments.

We encourage the government to deal expediently with its outstanding concerns about recording its pension liabilities, and work toward implementation of the recommendations in Public Sector Accounting Statement 5.

Comments on the Financial Statements of Public Bodies

Over the years, public bodies have become significant instruments of government policy. By some measures their collective financial status and impact approaches that of central government itself. For example, collective expenditures of the Crown corporations and government agencies included in Section F of the Public Accounts (Volume III) amounted to $8.3 billion in the fiscal year ended March 31, 1989, compared to central government expenditures of $11.7 billion for the same period.

The financial statements of Crown corporations and other government agencies are audited by either the Auditor General or private sector auditors. The government's Consolidated Financial Statements for the 1988/89 fiscal year reflect, in addition to the financial activities of central government, the balances and operating results of 27 public bodies. Of these, 11 entities, with total assets of $2.4 billion and expenditures of $1.9 billion, were audited by our Office. The other 16 public bodies, with total assets and expenditures of $13.2 billion and $3.6 billion, respectively, were audited by private sector auditors.

In addition to the audits of those public bodies included in the government's Consolidated Financial Statements, our Office was responsible for the audits of an additional 16 public bodies with assets and expenditures of $21 billion and $2.2 billion, respectively. Their financial statements are also included in Volume III of the Public Accounts. A detailed listing is presented in Appendix G.

Changes in Audit Responsibilities

During the past year, the Auditor General's responsibilities for audits of public bodies underwent several changes. First, the Auditor General was re-appointed the auditor of the British Columbia Enterprise Corporation (BCEC) and its subsidiaries. The financial statements of the corporation for the 1987/88 fiscal year had been audited by a private sector auditor. Second, through the application of section 6.1 of the *Financial Administration Act*, a private sector firm was appointed auditor of the British Columbia Heritage Trust, which was formerly audited by this Office. Third, on April 1, 1988, the Knowledge Network of the West Communications Authority, for which the Auditor General was the appointed auditor, became part of the Open Learning Agency, which is audited by a private sector firm.

Also, the Auditor General was appointed auditor of the British Columbia Public Service Long Term Disability Fund during the 1988/89 fiscal year. This was the first year that the financial statements of the Long Term Disability Fund had been audited. The auditor's report on the financial statements included the following paragraph explaining the limitations in the scope of this audit:

> The financial statements include, as unreported claims liabilities, an

estimate of the capitalized values of disability benefits for potential claims which have occurred prior to the year end but which have not been reported as that date. The estimate is calculated using an insurance industry formula modified for the Province of British Columbia Long Term Disability Fund. Results of applying the formula suggest that refinements are required to produce a more accurate estimate of unreported claims liabilities. Management plans to re-examine the formula used but does not expect the re-examination to be concluded on a timely basis. As a result, I was unable to determine whether any adjustments might be necessary to unreported claims liabilities, claims liabilities, claims expense and unreported claims expense.

Audits of Public Bodies

The form and content of a public body's financial statements are the responsibility of its management, which uses accounting and disclosure policies appropriate to the organization's activities. It is the auditor's responsibility to express an opinion as to whether the financial statements are presented fairly in accordance with appropriate accounting policies.

Audits of financial statements are conducted in accordance with generally accepted auditing standards, and are designed to report on whether the statements present fairly the results of the public body's activities. In addition, the Auditor General is expected to examine and report on other significant matters, such as compliance with legislative authorities and the adequacy of accounting systems and controls. Therefore, along with the audit work required to make an assessment of the financial statements of public bodies, the following work is undertaken:

- At the beginning of each audit, we identify significant financial and administrative authorities; and, during the audit, we examine the transactions selected in support of our financial audit to determine whether each complies with the identified authorities.
- During our financial statement audit, we also examine control and information systems to determine their reliability.

At the end of this work we send a letter to the management of each public body, reporting any audit concerns and, where appropriate, making recommendations for remedial action. Where a reported matter is considered to be significant, we may also include comment on that matter in our Annual Report to the Legislative Assembly.

During the year, all opinions on the financial statements of public bodies were issued without reservation. Matters raised with management of public bodies through our management letters are being satisfactorily dealt with.

British Columbia Hydro and Power Authority Preferred Funding

On October 31, 1988, the Province entered into an agreement with British Columbia Hydro and Power Authority (B.C. Hydro), a provincial Crown corporation, whereby the Province agreed to advance "preferred funds" to B.C. Hydro in the amount of $235 million for a term of 20 years. The monies required to make this advance were provided by the Province through the Fiscal Agency Loan program, under which the Province may borrow money for the purpose of lending it to a government body.

Throughout the term of the agreement, B.C. Hydro is periodically notified of the aggregate cost to the Province of providing this funding. According to the agreed terms, B.C. Hydro may then make a payment to the Province on account of that reported cost or, alternatively, it may defer making a payment until such time as it chooses within the remaining term of the agreement. At the end of the 20th year, all unpaid costs, together with the total of sums advanced, are repayable by B.C. Hydro to the Province. In the event that payment of the issue amount, together with any deferred payments, would cause B.C. Hydro to become insolvent, the Province has agreed to extend the term of the agreement on an annual basis until such time as repayment of the amounts due would not cause the corporation to become insolvent.

In its financial statements, B.C. Hydro has shown this advance from the Province as "Preferred Funding," separate from long-term debt and other liabilities. Under the terms of the agreement, any payments to the Province toward the cost of providing the funding are to be made by B.C. Hydro out of its retained earnings. Such payments are described as "dividends" in its financial statements.

The *Hydro and Power Authority Act* (section 42(15)) requires B.C. Hydro to establish sinking funds for securities issued with repayment terms of more than five years from the date of issue. (Sinking funds are pools of cash and/or investments, usually built up systematically, earmarked for the redemption of debt or capital stock.) B.C. Hydro maintains that this section of the Act refers only to debt, and not equity financing. Because it considers that the Preferred Funding it has received is more in the nature of equity financing, it has not established a related sinking fund.

In the government's financial statements, on the other hand, the money provided to the corporation is treated as a fiscal agency loan receivable, and thus not as an equity investment of the Province.

Since both parties to the Preferred Funding agreement are public entities dealing with each other on a non-arm's length basis, action should be taken to clarify the nature of "Preferred Funding," harmonize the accounting for these transactions, and determine whether a sinking fund should be established.

British Columbia Enterprise Corporation – Significant Transactions

Several significant transactions occurred during the year involving the wind-up of BCEC. In both Parts III and V of this report we comment on various aspects of the sale of BCEC assets.

New Guidelines For Non-Profit Organizations

The Canadian Institute of Chartered Accountants makes accounting recommendations which form the basis of generally accepted accounting principles for commercial enterprises in Canada. In 1989, it also issued accounting and disclosure standards designed to bring consistency to the financial reporting for non-profit organizations. As well, it has issued, through its Public Sector Accounting and Auditing Committee, recommendations concerning government and government-owned and -controlled organizations. We are currently conducting a detailed study to determine which of the various Institute standards is appropriate for each of the public bodies that we audit.

Status of Findings and Recommendations About Financial Statement Audit Matters Contained in Previous Annual Reports of the Auditor General

The following points were reported in our previous Annual Reports, but were not resolved at the time our last Annual Report was issued.

Report Year	Paragraph or Page	Subject	Status as at Date of Preparation of this Annual Report
Ministry of Finance and Corporate Relations			
1985	4.10	Suggestion that, while ministries are responsible for obtaining required approvals for reallocation of funds, monitoring of such transactions is necessary to ensure that Treasury Board rules are being observed.	Problem continues. Transfers between sub-votes, without prior Treasury Board approval, were noted in 2 ministries in 1988/89. The total amount of these transfers was $2 million.
1986	3.16	Recommendation that section 20(3) of the *Financial Administration Act*, which deals with items that are credits or recoveries, be studied to assess its interpretation and implications. Consideration should also be given to amending section 20(3) to require the actual receipt, or reasonable assurance thereof, of estimated credits or recoveries before the equivalent spending is allowed.	No similar concerns were encountered during the past fiscal year, as section 20(3) of the *Financial Administration Act* was not used.
1986	3.25	Recommendation that the Orders in Council (OICs) which authorize borrowing contain and clearly identify the maximum face value of the securities to be issued.	Resolved. The ministry's legal counsel is of the opinion that OIC authorized borrowing refers to the net proceeds and not the par value of a debt issue.

Report Year	Paragraph or Page	Subject	Status as at Date of Preparation of this Annual Report
1987	2.44	Recommendation that the ministry review legislation to determine whether or not settlement provisions concerning Non-Residential School Taxes (NRST) are equitable and meet the needs of the ministry and municipalities, and that it devise more conclusive measures to resolve the status of outstanding balances.	Resolved. The ministry has introduced regulatory amendments and has performed further reconciliation work to resolve the status of the outstanding balances.
1989	18	Recommendation that the government reconsider its method of presenting its financial statements by giving more prominence to the Consolidated Financial Statements and the Combined Financial Statements.	No change. See additional comments in the earlier section of this Part, titled "Identifying the Summary Financial Statements of Government."
1989	20	Suggestion that the Legislative Assembly examine the present practice with respect to the issuance of the Public Accounts, and consider the benefits of an earlier date of issuance to legislators and the public.	No change. However, the Select Standing Committee on Public Accounts, in its First Report for the Third Session of the Thirty-fourth Parliament dated July 20, 1989, recommended that "the Government consider the ways and means by which the public accounts for the Province of British Columbia can be made publicly available as soon as possible after the end of the fiscal year for which they have been completed."

Report Year	Paragraph or Page	Subject	Status as at Date of Preparation of this Annual Report
1989	25	Recommendation that greater care be taken by Treasury Board and the ministries involved to ensure that only appropriate authorizations are used for the expenditure of government funds.	No similar concerns were encountered during the past fiscal year, as section 20(3) of the *Financial Administration Act* was not used.

Ministry of Municipal Affairs

1986	3.87	Recommendation that adequate statutory authority be provided for grant payments which are made to municipalities by the ministry from the Revenue Sharing Fund for policing costs in non-urban areas within municipal boundaries.	No change.

Ministry of Social Services and Housing

1983	3.33	Concern about the overall system for processing income assistance payments including file documentation, segregation of duties, cheques issued by computer, and cheques issued by field offices.	With the exception of concerns about GAIN file documentation at district offices, controls to resolve all significant weaknesses in processing income assistance payments have now been implemented. The ministry is committed to making improvements in operational standards and, therefore, file documentation through training, internal audit programs and increased supervision.

Report Year	Paragraph or Page	Subject	Status as at Date of Preparation of this Annual Report
Provincial Capital Commission			
1989	61	Noted that the Commission did not obtain the required approval of the Lieutenant Governor in Council for an excess capital expenditure of $102,559.	No similar instances were noted during the past fiscal year.
Public Body Accountability			
1989	62	Concern expressed as to whether a process existed to provide adequate accountability of public bodies to the Legislative Assembly. It was also stated that the Auditor General would be studying this issue.	For further comment, refer to Part IV of this report, titled "Accountability of Crown Corporations to the Legislative Assembly."
Volume III of the Public Accounts			
1989	62	Recommended that Volume III of the Public Accounts be reviewed to see if improvements could be made to the accountability information contained therein.	The Office of the Comptroller General is studying this matter.

Part II: Internal Control Reviews

Part II: Internal Control Reviews

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Internal Control Reviews

Introduction

Internal controls are the methods used by an organization to govern its activities. They include the plan of organization followed, the records maintained, and the procedures employed to ensure that business is conducted properly and efficiently. Reliable internal control systems in government are essential to see that:

- expenditures are made only as authorized;
- all revenue to which the Government is entitled is assessed and collected;
- financial transactions are accurately recorded and reported;
- assets of the Crown are safeguarded; and
- relevant legislative and other authorities are complied with.

The ultimate responsibility for good internal controls rests with the government. Internal controls should be recognized as an integral part of each system used to regulate and guide operations. Good internal controls are not only essential to achieving the proper conduct of government business with full accountability for the resources made available, but they also facilitate the achievement of objectives by serving as checks and balances against undesired actions. By preventing negative consequence from occurring, internal controls help the government to run its operations cost-effectively.

The extent of controls in any system should be determined by the risk of loss, error, or misuse that is judged to be present in the system. The greater the risk, the greater the degree of required control. However, the cost of control should not exceed the benefits likely to be derived. These factors, judgement as to risk involved, and the need for controls to be cost effective, mean that in most situations it is not practical for internal controls to provide absolute assurance that all risks are addressed and that all objectives will be achieved.

The Value of Impartial Reviews

In light of the growing financial and physical resources being managed and controlled by the government, it is important that the Legislative Assembly receive impartial reviews of major internal control systems. These reviews help it to assess whether or not the responsibilities delegated to the government have been properly exercised, and whether the Legislative Assembly's responsibility for control of the public purse has been met.

The reviews, however, apply only to one point in time. Projection of the reviews to future periods could be inappropriate because the control procedures may become inadequate if conditions change, and compliance with the procedures may deteriorate.

To give the Legislative Assembly assurance that controls continue to be adequate, the Office of the Auditor General has developed a program for the cyclical review of major internal control systems over a reasonable time period.

Audit Coverage

Our approach involves assessing the status of internal control in two ways.

First, during our audit of the government's annual financial statements we perform various tests to obtain evidence in support of our audit conclusions. This work takes place in every ministry, and touches on most of the government's control systems. If we note specific weaknesses or instances of non-compliance with legislative and related authorities, and if we think the items warrant the attention of the Legislative Assembly, we present them in our Annual Report. Matters of lesser significance are handled through direct discussion with each ministry responsible. This approach ensures that matters coming to our attention during our regular examinations are properly dealt with. It is not, however, intended to constitute a thorough and complete review of the government's control systems.

The second way we assess internal control is through specific reviews. We examine, in depth, internal controls in all significant accounting systems over a reasonable period of time. At the end of each system review, we issue a detailed report to the applicable ministry, presenting our overall conclusions on how well the internal controls address the major risks of the system. The report also includes our recommendations to address identified weaknesses.

Reviews Undertaken

During 1989, we carried out the following reviews:

- Ministry Accounts Receivable Management
- Pharmacare Processing of Payment Claims From Pharmacies
- Wildlife Act - Licence Fee Revenue
- Long Term Disability Plan Benefit Payments
- Home Mortgage Accounting System
- Student Financial Assistance

We feel that the Legislative Assembly and the public should also know the government's response to our recommendations. Accordingly, we have included written responses to our reviews, received from the various ministries in which the reviews were conducted. We have also provided, in the last section of this Part, follow-up comments from ministries with regard to last year's reviews.

Ministry Accounts Receivable Management

A review of how well government ministries are managing their accounts receivable

Background

Accounts receivable represent monies owing to the Crown, and are generated through sources such as:

- taxation;
- cost-sharing agreements with other levels of government; and
- the provision of goods and services.

As at March 31, 1989, government accounts receivable totalled approximately $1 billion. This represents a significant portion (15%) of total recorded assets in the government's March 31, 1989 financial statements.

Government ministries must operate appropriate accounts receivable systems to collect monies owing to the Crown. This means developing and enforcing policies in the following areas:

- providing credit;
- recording accounts receivable;
- preparing information on the status of accounts;
- collecting amounts owing; and
- writing off uncollectible accounts.

The *Financial Administration Act* requires the Comptroller General, subject to directions of the Treasury Board, to ensure the proper recording, collection and receipt of public money. The Office of the Comptroller General has developed policies and procedures to help ministries manage their accounts receivable, and, since 1981, these have been widely distributed in the Financial Administration Policy manual.

As government is placing increased emphasis on generating revenue and collecting receivables, the proper management of accounts receivable has become increasingly important.

Review Scope And Objectives

The purpose of our review was to determine how well ministries are managing their unsecured accounts receivable. We did not review the receivable systems in all ministries, nor did we review accounts receivable from other governments, Crown corporations and agencies, or interest accruals.

We chose a representative sample of accounts receivable systems to review – systems that generate billings and require collection actions. These included:

Stumpage and Royalty ($204 million); Court Fines and Penalties ($35 million); Real Property Tax ($55 million); Property Tax

Deferral ($18 million); Ambulance Billings ($5 million); Safety Engineering Services ($1 million) and Water Works and Irrigation ($1 million).

As at October 31, 1989, for each of the above systems, we assessed the following:

- Are appropriate credit checks performed?
- Are billings recorded promptly and accurately?
- Is reliable and timely information provided on the status of accounts receivable?
- Is prompt and vigorous action taken to collect overdue accounts?
- Are doubtful accounts adequately provided for and are uncollectible accounts properly reviewed and approved before they are written off?

Conclusion

The Office of the Comptroller General has issued adequate policies and procedures to guide ministries in the management of their accounts receivable. However, we concluded that most ministries need to improve the management of their accounts receivable. We also found that the Office of the Comptroller General has not been adequately monitoring ministries' management of their accounts receivable, but is taking steps to improve this activity.

Specifically, we noted the following:

- In one system we reviewed, adequate credit assessment policies were not in place at the time of our review.
- The recording of billings by some ministries is not timely.
- Information on the status of accounts receivable is reliable and timely in some ministries, but not in others.
- Collection of overdue accounts is not prompt or vigorous in most ministries.
- Most ministries make adequate allowances for doubtful accounts and properly write off accounts considered uncollectible.
- There has been very little monitoring of ministries' management of accounts receivable, and specifically of their adherence to centrally issued policy and procedure guidance.

Findings And Recommendations

Providing credit

We found that where customers' ability to pay should be assessed before they are provided with goods or services, ministry management had not established adequate credit assessment policies. Soon after the date of our review, the ministry concerned drafted new, interim credit management policies, which we believe, if fully implemented, will help ensure that credit is properly extended.

We recommend that ministries providing credit develop and implement appropriate credit management policies.

Recording of receivables

Ministries must have adequate controls to record accounts receivable, both in their own records, for the management of accounts receivable, and in the government's central accounts, for the management of government cash flow, quarterly and other financial reporting, and the overall administration and monitoring of receivables.

Ministries generally do have adequate controls to record accounts receivable in their own records, but we noted the following areas needing improvement:

- Ministry billings, other than annual assessments, are not timely. It takes on average 30 days from delivery of goods or services to date of billing. This delay in issuing billings delays customer payments and impairs the government's management of its cash flow.
- Many ministries record their receivables in the government's central accounts only at the fiscal year end. During the year, therefore, the government's central records do not accurately reflect the ministries' accounts receivable.

We recommend that all ministries prepare their billings promptly, and that they record monthly their receivables in the government's central accounts.

Accounts receivable information

Certain of the ministries we reviewed are not preparing timely and/or reliable information to follow up overdue accounts. For example, they are not promptly preparing aged accounts receivable reports. In some instances, these reports do not include all accounts receivable. Also, some ministries do not use these reports for follow-up action.

We recommend that ministries:

1. *prepare timely and reliable receivable reports;*
2. *use these reports to follow up collection of overdue accounts; and*
3. *forward copies of these reports monthly to the Office of the Comptroller General.*

Collection of overdue accounts

Ministries should take prompt and vigorous action to collect overdue accounts. At present this is not being done. The following areas need improvement:

- Government has adequate general collection policies, but some ministries have not documented up-to-date policies for collecting their types of receivables. As a result, their collection actions may not be adequate or consistent.
- Collection action in most ministries is not prompt or

vigorous. It usually consists of issuing invoices and collection letters. Ministries rarely make personal contact with debtors to request payment. Several ministries have the ability to take legal action for non-payment of debts, but they rarely do. We did note that one ministry is using a collection agency to collect debts owing by out-of-country customers, and plans to expand its use of such agencies.

- Some ministries do not adequately document their collection actions.

We recommend that ministries:

1. *document their current collection policies;*
2. *take prompt and vigorous actions to collect overdue accounts, which could include, where appropriate and cost-effective:*
    - *personal contact with debtors;*
    - *use of collection agencies;*
    - *legal remedies; or*
    - *alternative actions; and*
3. *document all collection actions.*

Writing off uncollectible accounts

Ministries should record only collectible receivables in the ministry and government accounts. They can do this by reviewing the collectibility of their accounts and writing off those considered uncollectible. Most ministries are adequately doing this.

For government accounts formally written off, memorandum records are maintained. This is done because the government has the legal right to pursue collection for up to seven years. These accounts are supposed to be reviewed periodically for collection, but this is rarely done.

We recommend that accounts in the memorandum records be periodically reviewed and followed up for collection.

Central government monitoring of receivables

We found that the Office of the Comptroller General (OCG) is in the process of reviewing its policies and procedures for monitoring the management of accounts receivable by ministries. In June 1989, the OCG, through its Council of Senior Financial Officers, representing all ministries and offices, established a sub-committee of Revenue Managers to consider cross-government issues of revenue and accounts receivable management. OCG has also recently established a revenue and accounts receivable administration position to review ministry accounts receivable information. In addition, it has been developing alternative collection methods for ministry use, such as setting-off accounts receivable against amounts owing by the government to the same debtors.

At present, ministries are not required to have an account in the central government accounts for each of their accounts receivable systems; nor are they required to have their accounts receivable balances recorded on a monthly basis in the central accounts. Also, the OCG does not receive aged accounts receivable reports from all ministries, as is required by government policy. Therefore, it is difficult for the OCG to adequately monitor ministry collection actions.

As is required by government policy, the OCG is receiving and reviewing requests from ministries for the writing off of bad debts.

We recommend that the Office of the Comptroller General:

1. *require all ministries to maintain accounts in the central government accounts for each ministry accounts receivable system and to record their accounts receivable balances monthly in the central accounts;*
2. *obtain aged accounts receivable reports from all ministries, as is required by government policy, and use these reports to monitor the collection actions of all ministries; and*
3. *continue developing alternative collection methods for ministry use.*

Response of the Comptroller General

We agree with the Auditor General that the management of accounts receivable could be improved. We also concur with the recommendations made in the report and will incorporate the suggestions in our continued efforts for better control and management of receivables.

Pharmacare Processing of Payment Claims from Pharmacies: Ministry of Health

A review of controls over the processing of payment claims under the Pharmacare program

Introduction

The Pharmacare program provides funding contributions to subsidize British Columbia residents for the cost of prescription drugs and other designated health care benefit services. The contributions are provided either to pharmacies filling prescriptions or to individuals receiving the prescriptions or other services, depending on the particular Pharmacare plan under which the payments are made.

The Pharmacare program is operated by the Ministry of Health and has a 1989/90 budget of $194.6 million.

Purpose of the Review

The purpose of this review was to assess the risk that internal controls over the processing of payment claims may not be adequate to detect incomplete, inaccurate or invalid information, and prevent inappropriate or incorrect amounts from being paid to pharmacies.

The major risk inherent in this type of contribution program is that contributions could be paid in excess of amounts eligible. This could occur if claims contain: incomplete or duplicate information; inaccurate calculations, amounts, or accumulations; or ineligible drugs, recipients or claimants.

To address this risk, the ministry has two principal areas of control it can exercise over the payment of Pharmacare program contributions: processing the payment of claims received and auditing the support for the claims. The overall objective of this internal control review was to evaluate the adequacy of the first of these two principal areas of control.

During our review, we also considered the legislation authorizing the Pharmacare program; the agreements with the individual pharmacists; and the policies and procedures of the ministry.

Scope of the Review

We reviewed the processing of claims from pharmacies during the month of January 1990. Payments to individuals were not examined because these payments were considered to be subject to lower risks, to generally involve smaller sums of dollars, and be processed in systems separate from those used for payments to pharmacies.

Processing controls provide timely, preventative checks on claims submitted to Pharmacare. These controls are the principal means of ensuring that appropriate reviews are being performed for the completeness, accuracy and validity of data before amounts are paid. By their nature, processing controls are somewhat limited because they assume that the payment claim information submitted for processing is inherently honest.

Pharmacare's internal audit is a control which is applied to a smaller segment of the population of payments after they are made and is one of the main controls for detecting fraud. We did not review Pharmacare's audit function because, at the time of our review, there were significant changes being implemented in the scope of work performed.

Methodology

We obtained our information about the Pharmacare system for processing payment claims by observation and discussion with program officials and staff. We reviewed the systems and procedures documentation made available to us, as well as the relevant legislation, policies and agreements.

We developed and used test decks of invoices and prescriptions as a means of determining whether or not the edit routines and correction processes were functioning properly. We also looked at ministry data being processed at the time of our review. As well as observing control procedures, we looked at the documented evidence of these control procedures being performed.

Conclusions, Findings and Recommendations

We found that there are many good controls in the system. We also found some weaknesses.

We concluded that there is a relatively low risk that claims are being paid when they do not contain information necessary to enable controlled processing to occur. However, some improvements are necessary in both the recovery of duplicate amounts paid and the ministry's review of files for possible unprocessed claims. **We recommend** that government policies for the write-off of small amounts and the charging of interest on larger amounts be applied to Pharmacare accounts. **We also recommend** that the review of data files for possible unprocessed claims be performed on a more timely basis.

We concluded that the process generally ensures that claims are accurately calculated. However, there is a risk that when claims containing excessive amounts are received, this fact may not be detected. We found that the benchmarks used to test the reasonableness of claims are too broad and could not function effectively to limit overpayments which could arise from possible keypunching errors. **We recommend** that Pharmacare develop benchmarks to provide tighter control for identifying claims which may be excessive.

Processing controls include various edit routines which check for completeness, accuracy and validity of claims submitted by pharmacies. However, corrections clerks have the discretion to override these edit routines to get claims paid, and thus could circumvent these and other existing, well-functioning controls. **We recommend** that overrides of edit routines be more closely supervised and monitored.

The processes and edit routines, which ensure the validity of claims, were operating properly. We found, however, that the master files of pharmacies and drugs, against which claimants and drugs are compared, were not reviewed by a supervisor to ensure that all additions and deletions were timely, accurate and appropriately authorized. **We recommend** that the procedures for updating all master files require a timely and appropriate level of review and approval.

Our review of the computer environmental controls indicated that access to the processing programs and data files is not adequately restricted or monitored. This increases the risk that, if unauthorized changes were made to the programs or files, they could go undetected. **We recommend** that access to computer programs and files be more restricted, and that the system be modified to detect, log and follow up any instances of unauthorized access.

Response of the Ministry of Health

1. ***Audit Recommendation*** *- We recommend that government policies for the write-off of small amounts and the charging of interest on larger amounts be applied to Pharmacare accounts.*

   Ministry Response *- Formal approval for write-offs will be obtained and interest will be charged in accordance with Financial Administration Act regulations.*

2. ***Audit Recommendation*** *- We recommend that the review of data files for possible unprocessed claims be performed on a more timely basis.*

   Ministry Response *- The "To Date Rejection Report" is run at various times during the year for the purpose of identifying unprocessed claims. As resources permit, this report will be run on a more regular basis.*

3. ***Audit Recommendation*** *- We recommend that Pharmacare develop benchmarks to provide tighter control for identifying claims which may be excessive.*

   Ministry Response *- Pharmacare recognizes that the benchmarks currently used with respect to quantities and price could be improved and has been investigating the possibility of establishing tighter control benchmarks for some time. It is hoped that these changes can be introduced in the near future.*

4. **Audit Recommendation** - *We recommend that overrides of edit routines be more closely supervised and monitored.*

   Ministry Response - *A system of logging all overrides for subsequent review and sign off will be investigated.*

5. **Audit Recommendation** - *We recommend that the procedures for updating all master files require a timely and appropriate level of review and approval.*

   Ministry Response - *Master file updates will be approved by a supervisor.*

6. **Audit Recommendation** - *We recommend that access to computer programs and files be more restricted, and that the system be modified to detect, log and follow up any instances of unauthorized access.*

   Ministry Response - *The Systems Division and the B.C. System Corporation will be made aware of this concern and asked to rectify it.*

Wildlife Act – Licence Fee Revenue: Ministry of Environment

A review of controls over the distribution, issuance, sale and accounting for licences issued under the Wildlife Act

Background

The Wildlife Branch of the Ministry of Environment issues licences for hunting, fishing and related activities under the *Wildlife Act*. The fees for these licences are set by regulation by the Lieutenant Governor in Council. There is also a surcharge collected on certain licences. In 1988/89, 955,000 licences were issued for fees of $12 million and surcharges of $1.5 million.

Under an agreement between the Ministry of Environment and the Ministry of Regional and Economic Development, the system of distribution, issuance, sale and accounting for all licences is the responsibility of the Government Agents Branch of the Ministry of Regional and Economic Development.

The system is highly decentralized, involving 61 Government Agents and over 1,300 commercial licence vendors, commonly referred to as sub-issuers. The Wildlife Branch arranges the printing of licence inventories for delivery to the Government Agents Branch headquarters in Victoria and to certain Government Agent offices, which act as distribution centers. The licences are then shipped to Government Agents throughout the province. Each Government Agent has a number of sub-issuers, who are accountable to the agent for the licence inventories supplied to them and the fee revenue collected. Sales to the public are made almost exclusively by the agents and the sub-issuers. The sub-issuers receive a commission of 10% on the fee revenue collected.

At the beginning of the 1989/90 fiscal year, a new computer-based Revenue Management System (the RMS system) became fully operational at the Government Agents Branch headquarters and all Government Agent offices across the province. The system was designed to assist in the management of licence inventories and in the accounting for fee revenue collected.

Review Scope and Objectives

With any revenue system, the major concern is that all revenues might not be collected and accounted for. The major risk in this system is that revenue could be lost if the inventory of licences is not properly controlled and accounted for. The other risks are that fees for licences sold might not be charged at the correct rate, and that transactions might not be accurately and promptly recorded in the RMS system and the government's central accounting records.

We evaluated, as at December 31, 1989, key manual and user controls established to address these risks. We did not review the enforcement procedures designed to ensure that a licence has been purchased by everyone who is required to have one under the *Wildlife Act*.

Our review was carried out primarily at the Wildlife Branch offices, the Government Agents Branch headquarters, and six Government Agent offices.

Summary of Findings

Current procedures for the distribution, issuance, sale and accounting for licences under the Wildlife Act provide limited controls over the licence fee revenue. These controls operate mostly on an informal and inconsistent basis, and include few documentation, reporting or monitoring procedures. As a result, the continued, effective operation of controls over this revenue cannot be assured, increasing the risk that revenue could be lost and this loss remain undetected. We have made several specific recommendations, which we believe would significantly improve overall accountability for this revenue.

Since licences can be converted readily into cash, proper procedures are necessary to account for and control licence inventories from production through to sale. In this respect, controls over the physical inventory of licences are a critical part of overall inventory management, as are the reporting and monitoring procedures which provide discipline over these controls.

The RMS system, operating throughout the Government Agents Branch since April 1989, provides a good framework for capturing and reporting data related to licences, and for strengthening financial and management control over revenue. We believe that this system together with the improvements identified in our recommendations would address the risks associated with the accounting for licences and related revenue. The more significant of our recommendations are that:

- formal policies and procedures be implemented, covering all aspects of inventory management, including: physical counts; reporting and monitoring procedures; independent, documented checks of licences printed and delivered to distribution centers; and management review of adjustments;
- the development of the Government Agents Accounting Procedures Manual be completed to provide and document comprehensive and clear policies and guidelines concerning the system's operation and control procedures applied; and
- the Wildlife Branch complete its review, currently underway, of the licence fees under the *Wildlife Act*, and establish procedures for conducting such reviews on a regular basis.

Response of the Ministry of Environment

The Ministry concurs with the recommendations made as a result of your Internal Control Review as at December 31, 1989. These recommendations are being addressed in consultation with the Government Agents Branch of the Ministry of Regional and Economic Development which is responsible under a protocol agreement for the system of distribution, issuance, sale and accounting for all licences under the Wildlife Act.

Formal policies and procedures, including accounting procedures, to enable sound inventory management and control are currently under development by the Government Agents Branch.

The review of fees and licences under the Wildlife Act is now in the final stages of its completion.

Long Term Disability Plan Benefit Payments: Superannuation Commission

A report on controls over disability benefits paid to employees from the Province of British Columbia's Long Term Disability Fund

Background

The Long Term Disability Plan (the Plan) was established under the provisions of the *Public Service Benefit Plan Act* to provide disability insurance for employees of the Province and participating Crown employers. The Plan provides income continuity to covered employees who suffer a long term disability.

Benefits are payable after the employee has been totally disabled for at least seven months. Once an application has been made and approved, a monthly benefit is paid. These benefits are paid as long as the employee remains totally disabled, and they cease when the employee recovers, reaches normal retirement age, resigns or dies. Any benefits the disabled employee (claimant) receives from other plans results in a corresponding reduction in the benefits provided under the Plan.

The Long Term Disability Fund was established under the Act to provide for the financial obligations of the Plan. The Fund receives contributions from the Province and participating employers, and pays for the cost of disability benefits and claims administration. At March 31, 1989, the value of all claims liabilities was $72.8 million and, during the year then ended, benefits paid totalled $9.5 million.

The Superannuation Commission of the Province of British Columbia is responsible for administering the Plan. The Commission has, in turn, contracted with a private insurer (Plan carrier) to provide certain services. The Commission verifies benefit applications and the Plan carrier performs the day-to-day administration and control of the Plan, including the calculation and payment of monthly benefits. The Commission deposits funds into a "joint account" and the Plan carrier draws funds from the account to cover the cost of benefits.

Review Scope and Objectives

The major concerns in the Plan's benefit payments system are that benefits might be paid to ineligible employees and that incorrect benefits might be paid. Applicants may be ineligible from the start or may become ineligible over time. Benefits might be paid incorrectly as a result of incorrect calculations or a failure to identify and account for other disability incomes, to terminate claims, or to detect unauthorized transactions.

Our review was designed to evaluate, as at March 31, 1989, the adequacy of controls established by the Superannuation Commission to address these risks. We also reviewed disability payments made by the Plan carrier as part of our audit of the March 31, 1989 financial statements of the Long Term Disability Fund.

Summary of Findings

The Superannuation Commission has established controls to ensure that only eligible employees apply for benefits. It has not, however, established controls to ensure that only eligible employees continue to receive benefits and that the benefits paid are correct.

Although the Commission has contracted with the Plan carrier to provide many of the Plan's administrative needs, final responsibility for the Plan's activities rests with the Commission. Accordingly, the Commission should monitor the work of the Plan carrier to ensure that the risks in the benefit payments system are addressed. This has not happened. The Commission has delegated control functions to the Plan carrier but has not established a comprehensive process to monitor those activities. As a result, the Commission cannot be sure that only eligible employees are being paid and that the benefits paid are correct. In a representative sample, we found errors involving underpaid and overpaid benefits. While the number of errors and their amounts were small, they can accumulate until the benefits for the affected claimants are terminated. As well, the Plan has a responsibility to ensure that individual payments are accurate.

The Commission has taken some steps to address the risks present in the system. Our Office has been asked by the Superannuation Commissioner to conduct annual financial statement audits of the Long Term Disability Fund. The first audit covered the year ended March 31, 1989. We think this is a positive step, but do not believe the Commission should rely totally on the financial statement audit to ensure that the system's risks are addressed. We test transactions only to an extent required for the financial statement audit, not to a level of precision that is adequate for the Commission to use in monitoring the system. Also, we perform the audit annually, whereas several controls should be applied more often and as required.

Our detailed report to the Commission includes several recommendations. Some may involve annual reviews of the Plan carrier's records by either Commission staff or others at the Commission's request. Others involve establishing ongoing procedures within the Commission, such as monthly reconciliations of benefits paid by the Plan carrier with amounts withdrawn by the carrier from the joint account, checking that payments have stopped for terminated claims, verifying the completeness of accounts receivable arising from terminated claims, and reviewing monthly changes in the Plan carrier's billing statement. These recommended procedures will require making better use of information currently available to the Commission and requesting the Plan carrier to provide additional information. The Commission may also want to consider developing its own computerized system to control the Plan.

Response of the Superannuation Commission

The Commission is generally pleased with the information contained in your report. The Commission undertook the performance of the audit by your office because we were concerned that our administrative systems did not contain sufficient financial controls. You can be assured that we are already moving towards addressing many of the concerns brought out in the audit. In some of the areas, we would also like to discuss with you the expansion of your audit function to include some of the control functions recommended in the review.

We believe that you will find that future audits will show that we are committed to improving the financial controls used to ensure that only valid payments are made from the Long Term Disability Fund. Your comments are valuable and timely and will assist us in determining and planning priorities within the context of available resources.

Home Mortgage Accounting System: Ministry of Finance and Corporate Relations

A review of the accounting for loans and mortgages issued under various housing programs and held by the Province of British Columbia

Background

The Loan Administration Branch was established in 1989 to manage loans and mortgages transferred from other ministries and from Crown corporations. At present, the Branch's portfolio consists of loans and mortgages transferred from the Ministry of Social Services and Housing and British Columbia Enterprise Corporation (BCEC).

The loan portfolio transferred from Social Services and Housing totals $54 million and includes mortgages issued under the B.C. Second Mortgage program and loans issued under other housing programs. A large portion of this portfolio consists of delinquent accounts. Loans and mortgages are accounted for on the Home Mortgage System, a computerized mainframe system which is administered in Victoria and designed to account for loan and mortgage transactions and to provide loan status information.

The BCEC loan portfolio, in the amount of $89 million, is maintained on a separate system at the Branch's Vancouver office and may be the subject of a future review.

Review Scope and Objectives

We examined controls within the Loan Administration Branch in Victoria as at January 15, 1990, to determine whether management had established controls to effectively address the risks involved in managing the loans and mortgages transferred from Social Services and Housing. In particular, we focused on whether: adequate collection and write-off policies and procedures were in place; loans were properly valued; payments on loans were promptly and completely deposited; and all loan transactions were accurately and promptly recorded in the accounts.

Summary of Findings

The Loan Administration Branch has developed adequate controls to account for loans and mortgages. We believe, however, that the Branch should continue to develop and document its loan collection and write-off policies and procedures, and to improve its handling of loan payments received and computer controls.

The Branch is in the process of documenting policies and procedures for loan collections. Since most loans and mortgages receivable in the Home Mortgage System are delinquent, and full recovery of some accounts is questionable, well-documented policies and procedures are needed to maximize collection. The Branch should also further develop its guidelines and policies for identifying, deciding when to write-off, and cease accruing interest revenue on, uncollectible loans and mortgages.

We found that loan payments were not logged and cheques were not endorsed by a "For Deposit Only" stamp immediately upon receipt. Instead, they were passed on to accounting staff who updated loan accounts and prepared bank deposits.

We have recommended to the Branch that it improve its processing of loan payments received by separating the handling and depositing of such receipts from the daily updating of loan accounts.

We also notified the Branch of the need to meet government policies on controls over changes to computer programs and, in particular, of the need to develop emergency, backup and recovery procedures for computer systems failure.

Response of the Ministry of Finance and Corporate Relations

The Ministry of Finance and Corporate Relations welcomes the Auditor General's recent report on the adequacy of internal controls surrounding the Loan Administration Branch's (LAB) Home Mortgage System, and agrees with his recommendations. We are pleased to note that no weaknesses were identified which presented major concern.

In the eight months since the transfer of the portfolio of accounts from the Ministry of Social Services and Housing, LAB has, by necessity given priority to concluding and managing the issues arising out of the sale to the Bank of Montreal. In addition, the Branch has had the responsibility for implementing the new Home Mortgage Assistance Program (MAP) and has assumed responsibility for other loan portfolios.

In light of these priorities, only the structural design phase of the policies and procedures documentation project has been completed to date. LAB remains committed, and as noted in the Auditor General's Annual Report is progressing with documentation.

The Ministry agrees there is a need for further development of guidelines and policies involving write-offs and interest accrual. The valuable advice of our Ministry's Internal Audit staff and the staff of the Office of the Auditor General will speed this project.

The Ministry is pleased to advise that the changes in process for the handling of loan payment cheques, recommended by the Auditor General have already been made. Your office has confirmed its satisfaction.

The Branch's computer system operates on the mainframe computer at the British Columbia Systems Corporation, and benefits from the considerable and proven, security back-up, and disaster recovery policies and procedures in place at the corporation. The Ministry will review its controls covering changes to the system in order to ensure compliance with government policies.

Student Financial Assistance: Ministry of Advanced Education, Training and Technology

A review of the systems for providing financial assistance to post-secondary students

Background

The Student Services Branch of the Ministry of Advanced Education, Training and Technology administers the British Columbia Student Assistance Program (BCSAP).

The BCSAP principally comprises:

- Repayable student loans. These loans may be under the British Columbia Student Loan Program (approximately $26 million issued annually), financed by the Province, or the Canada Student Loan Program (approximately $81 million issued annually), financed by the federal government and administered by the Province. Financial institutions make loans to students under a guarantee from the Province or the Government of Canada. During 1988/89, the Branch processed nearly 36,000 loan applications.
- Non-repayable assistance from the Equalization and/or Supplemental Funds. The Province maintains these funds, expenditures from which amount to approximately $15 million annually.
- Loan remissions earned through scholastic performance. The Province pays to financial institutions amounts that are equal to remissions earned to reduce the principal on applicable loans. The payments approximate $7 million annually.

Eligibility for assistance depends primarily on financial need and personal responsibility demonstrated through work, study and/or volunteerism.

The Branch also makes payments to financial institutions to cover the interest on loans guaranteed for students currently attending classes ($5 million annually), and to assume the loans defaulted by students who have not complied with the loan conditions (nearly $5 million annually).

Review Scope and Objectives

In a financial assistance program, the major concern is to ensure that only eligible recipients receive continuing support, and that the assistance is correctly calculated from accurate underlying information.

The objective of our review was to determine whether controls in the Student Services Branch were sufficient to provide reasonable protection against:

- ineligible applicants;

- incorrect calculation of values of loan approvals and grant, interest and loan remission payments;
- incomplete and inaccurate recording of grants, defaulted loans, remissions and loan interest payments in the government's central accounting system.

We concentrated our review on controls and procedures operated by the Student Services Branch. Accordingly, we did not review the procedures and controls in the learning institutions which collect eligibility information and distribute grant payments. We also excluded the procedures for collecting defaulted student loans, as we understand that this responsibility may be transferred to the Ministry of Finance and Corporate Relations.

We examined the internal controls in existence as at December 31, 1989. To ascertain the controls in the system, we reviewed Student Services Branch documentation and interviewed the staff responsible for student financial support. We then performed tests to ensure that the controls were operating effectively.

Summary of Findings

The Branch has developed a substantially effective framework of controls over the processing of student financial assistance. However, some weaknesses exist. In particular, we found that audit work performed by the Branch on processed claims was insufficient to measure whether the processes established did and could be expected to protect against incorrect grants being made.

We also noted that the Branch needs to complete its documentation of control standards and, to this end, we made a number of recommendations for improved control.

The greatest risk of excessive assistance being given lies in the learning institutions and the Branch failing to detect incorrect eligibility information provided by applicants. The Branch has given the learning institutions detailed guidance on calculating the awards, and it investigates information identified by the institutions as being questionable. However, because it is unable to implement a comprehensive program of random audit verification of processed applications, it cannot assess whether its control systems and procedures are successfully minimizing the risk of excessive payments, or whether additional verification needs to be done. We recommended that additional resources be allocated to this area to ensure that the risks are adequately controlled.

The Branch has produced in-depth manuals for use by learning and financial institutions, and by its own staff. Its policy and procedures documentation, however, does not describe a number of control processes which are currently performed. The large volume of data which the Branch must handle emphasizes the need for a full description of all the required control processes. We recommended that the Branch fully document the controls that should exist, as well as the evidence which it expects to be produced showing their continued and proper operation.

We made specific recommendations for improving controls over:

- confirmation of eligibility of loan and grant applicants
- processing of loan and grant applications
- payment of interest on loan balances
- defaulted loans
- reporting of guaranteed debt

Response of the Ministry of Advanced Education, Training and Technology

While acknowledging that the Ministry has developed a substantially effective framework of controls over the processing of student financial assistance, you noted that improvements could be made in the following areas:

- *A comprehensive program of random audit verification of processed applications should be implemented; and*
- *The Student Services Branch should fully document all control processes which should exist, as well as the evidence which it expects to be produced showing their continued and proper operation.*

You have our assurance that the observations and recommendations contained in your report will be closely examined. Once our staff have completed their review of the report, a detailed response and action plan will be developed and forwarded to your office. Implementation of the action plan will then be dealt with at the Ministry's earliest opportunity.

Finally, we would like to thank you and your staff for the professional manner in which this review was conducted, and for your efforts in evaluating this system.

Follow-up of Previous Year's Internal Control Reviews

At the conclusion of each internal control review, we provide those responsible for managing the program or function audited with an opportunity to respond to our audit reports. These responses are published in our Annual Report, along with our audit assessments.

Due to the nature of internal control reviews and the matters raised during them, we usually only follow up on these reviews when the next review of the area is undertaken. Also, it takes time to implement the recommendations that arise from internal control reviews. Therefore, when ministries initially respond to our reports just after the audits have been completed, they frequently are only able to indicate their intentions to resolve the matters raised by our audits, rather than their actions to do so. Without further information, legislators and the public are not aware of the nature, extent and results of management's remedial actions. Therefore we felt it would be useful to obtain and publish updates of management's responses to our previous internal control reviews.

The following written comments were received in reply to our invitation to publish further updates from the ministries that were the subject of internal control reviews last year.

Included are comments from:

Ministry of Finance and Corporate Relations:

- Property Purchase Tax System
- Long-Term Debt Accounting System

Ministry of Education:

- Central Textbook Inventory System

Ministry of Forests:

- Data Collection Phase of the Stumpage and Royalty Revenue System

Ministry of Solicitor General:

- Provincial Police Services Contract Payment System

Ministry of Finance and Corporate Relations

Property Purchase Tax System

The Ministry appreciates the courtesy that you have extended in this regard and has set out below a summary of the current status of the actions taken in response to the recommendations that were previously identified.

1) *A computer program was designed and has been implemented to ensure that those transactions entered onto the land title system are also recorded on the property purchase tax system. The foregoing program is currently being further enhanced to provide specific edits and production of exception reports.*

2) *The audit selection criteria has been subject to further fine tuning to ensure that high risk transactions are examined on a timely basis. The department has also implemented a more comprehensive sequence of edits to verify assumptions being made by staff in completing their review and correction of property tax returns.*

   The department has developed plans for a consolidated program of audit selection criteria which would further enhance the mechanism of internal control for the purpose of editing and identifying corrections that are required on the returns. This plan will be implemented upon receiving approval of the necessary funding to complete the project.

3) *A detailed Policy and Procedures Manual has been completed and distributed to staff. Amendments to that manual are made as and when department procedures change.*

4) *The department has developed and implemented emergency back-up, change control and recovery procedures for the system.*

Long-Term Debt Accounting System

Since the November 30, 1988 Internal Control Review of this system, the Ministry has initiated the following to enhance our operating procedures:

1) *Reconciled Treasury's debt management records from the mainframe computer system. A monthly reconciliation summary report is now prepared for Treasury Board Staff.*

2) *Implemented procedures to ensure that all changes to computer programs are authorized and tested by securities personnel prior to their implementation and that the daily data base activities log report is reviewed for unusual activity.*

3) *Reviewed the feasibility of automating all interest and amortization calculations on the mainframe. It is still our intention to enhance the Debt Management system to provide these calculations; however, implementation has been delayed due to the investment diversification project and the conversion of the Security Investment System. We plan to make the required system changes in fiscal 1990/91.*

Ministry of Education

Central Textbook Inventory System

In response to the 1989 Annual Report, the Ministry of Education indicated the intention to discuss the *concept of classifying textbooks as inventory "for resale" rather than "not for resale" with the Office of the Comptroller General. It was felt that this change would allow the Branch to realize savings in bulk purchasing and thus, enhance its ability to meet operational objectives. As well, this was seen to be a means by which the Branch could develop accounting and other financial controls which would enhance its accountability.*

It is the intention of the Ministry of Education to explore the implications of the suggested change and reach a decision on this matter before the end of the 1989/1990 fiscal year.

Ministry of Forests

Data Collection Phase of the Stumpage and Royalty Revenue System

Introduction

The Ministry has acted on the findings and recommendations in the Auditor General's Annual Report. Forest Revenue Inspection Teams (FRITs) are now established in all regions. Their activities have improved the control over the physical movement of timber and timber marking. Unannounced visits to scale sites are now more frequent. Responsibility for the scaling function was centralized at the regions to improve consistency and the use of available resources. The Ministry has assigned revenue responsibility to specific positions in the regions.

The Ministry is implementing a Revenue Risk Management Plan in the regions. The Plans will support our revenue management goal of controlling revenue so that revenue loss is kept to an acceptable level. The Plans will ensure that the Ministry manages revenue in a manner consistent with other organizations that manage large, diverse and complex revenue systems.

Harvesting Inspections

The Auditor General expressed concern with the frequency of harvesting inspections. At the time of the Auditor General's report, the Ministry was changing the method of inspecting harvesting operations for major licensees from ongoing field monitoring to periodic field audits. The Ministry has since reconsidered this change and has decided to maintain a regular presence in cutting areas through regular harvesting inspections. The inspection frequency required by existing policy is not being met for major licensees. District workload pressures limit the Ministry's ability to increase the frequency of inspections.

The Ministry is currently developing new policies on harvesting inspections. A standard for harvesting inspection frequency will be incorporated into the policy statements.

Physical Movement of Timber

Timber marking policies have been revised. A uniform coastal policy is in place. Interior regions have policies to ensure greater uniformity between districts in the various regions. Ministry personnel, especially the FRITs, have put considerable effort into enforcing timber marking requirements and significant improvement has resulted.

Differences remain between interior regions in some matters relating to control over the movement of timber such a *hammer versus paint marking and the use of load destination slips. There are valid business reasons for these differences. The Ministry is determining whether the goal of a consistent, province wide policy will achieve greater control over timber movement than the present policy which accommodates regional variations.*

Arrangements and protocol agreements are currently being negotiated with Canada Customs. Discussions will soon begin with the Ministries of Transportation and Highways and Solicitor General to formalize their assistance in controlling the movement of timber.

The Ministry requires that mills report when they are not operating, rather than when they are operating, because most timber is processed in facilities that operate continuously. The Auditor General recommended that mills be required to report when they are operating. The policy recommended by the Auditor General might be useful for small mills which operate intermittently. It has not been pursued to date because of higher priorities.

Check Scaling

A significant development in check scaling was the transfer of responsibility for the scaling function from the districts to the regions on October 1, 1989. This will allow for greater consistency in the enforcement of scaling standards, and for better utilization of check scalers. The check scaling function and the FRITs now report to the same regional official. This will help ensure coordination of these functions.

The Auditor General noted that the frequency of check scales did not meet the Ministry's policy which requires that check scales be performed at least once a month on active industry scalers. The Ministry is making progress towards meeting this standard. In addition to improving consistency of performance of individual scalers, check scales have an important role in minimizing the overall risk of revenue loss. By targeting scaler efforts to areas of greatest risk of revenue loss, the Ministry expects to achieve greater assurance that revenue loss is minimized.

Keeping all check scaling positions filled continues to be difficult, particularly in remote areas of the Province. The number of vacancies has been reduced and efforts will continue to keep vacancies as low as possible.

The problem identified by the Auditor General of check scalers working Ministry office hours has been partially addressed by the implementation of the FRITs. Flexible work hours have been negotiated for the members of these teams which result in unexpected visits to scaling locations to conduct check scales on the industry scalers. We have been unable to secure equivalent work arrangements for check scalers. Other solutions are being investigated.

The scaling regulations require that logs be clearly labelled as having been scaled to prevent logs from being missed or double counted during actual scaling. The Auditor General noted that this regulation was not consistently enforced. Efforts to improve in the area will be a priority this year.

Data Collection

The Auditor General expressed concern at the lack of controls over source documents used to measure harvested timber volumes, and over computer software used by licensees to capture weigh scale information and to calculate volumes.

Funding was approved in 1989 for a three year computer and administrative systems initiative. The initiative will upgrade the major revenue systems and procedures in the Ministry as well as addressing weaknesses identified in the Auditor General's report.

The Auditor General recommended that the Ministry make greater use of comparisons between volumes of timber estimated prior to harvesting and volumes scaled from the same area. Such "cut-to-cruise" comparisons are completed for the Small Business Forest Enterprise Program. These sales authorize harvest of specific areas over relatively short time periods. Such comparisons are more difficult for cutting permits on major licences. The Ministry will further explore the practicality of a routine means of comparing cruise and scale volume information and will assess its usefulness in identifying cutting areas which may warrant further investigative action.

Revenue Responsibility

The Auditor General recommended that the responsibility for revenue data collection be assigned to specific positions in the regions and districts.

Responsibility for scaling and for capturing accurate revenue data has been assigned to the regions. The Regional Scaling Supervisors have been assigned the specific responsibility of ensuring that all timber required to be scaled is scaled appropriately. Regional Valuation Officers have been assigned the overall responsibility for virtually all activities that support billing accuracy and correctness. A standard Regional Valuation organization is being developed to help ensure that revenue responsibilities in this area are met.

The Ministry is committed to managing its revenue responsibilities properly and efforts will continue in the future to address the recommendations made by the Auditor General.

Ministry of Solicitor General

Provincial Police Services Contract Payment System

The Ministry of the Solicitor General for British Columbia agreed with the 1989 observations. The existing RCMP Contract Policing Agreement will lapse 31 March, 1991. In November, 1989 the Government of Canada and the governments of the participating provinces and territories opened discussions leading to renegotiation of the Agreement. The issues of auditing, evaluation and fiscal accountability have been specifically identified as matters to be addressed in the context of any contract renewal.

Part III: Value-for-Money Audits

Part III: Value-for-Money Audits

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Introduction to Value-For-Money Auditing

This year's Annual Report contains the results of value-for-money audits conducted in the Ministry of Transportation and Highways, as well as the results of two cross-government examinations: Privatization, and Acquisition and Disposition of Land.

To a large extent, these audits represent continuations of themes contained in our 1989 Annual Report.

In 1987, Commissioner Douglas L. MacKay reported the results of his investigation into the estimated and actual costs of highways constructed in British Columbia in recent years, with particular reference to the Coquihalla Highway. In his report, Mr. Mackay criticized the way the Ministry of Transportation and Highways planned, controlled and reported highway construction projects. In our 1988 Annual Report, we undertook to monitor the ministry's progress in rectifying the deficiencies identified by the Commissioner.

Accordingly, in 1988 we monitored the ministry's improvement efforts. However, because many of the ministry's modifications were still in progress at that time, we did not conduct a full audit. Instead, we reviewed the changes the ministry had made, or was in the process of making. In our 1989 Annual Report, we described the actions taken by the ministry in response to Commissioner MacKay's findings. However, we did not evaluate whether the deficiencies had been overcome as a result of these actions. We also indicated that we would follow up our review with a comprehensive value-for-money audit of the ministry during the next year. This Annual Report contains the results of the first value-for-money audits completed during this comprehensive examination of the Ministry of Transportation and Highways.

In 1989, we reported on the Government's privatization program. Because the program was in its early stages then, we focused our audit on the value-for-money issues relating to the initial transfer of government operations to the private sector. In other words, we examined the "point of sale" aspects of the program. For example, we looked at the sale and lease of assets relating to the privatization of road and bridge maintenance for southern Vancouver Island, and at the contract the government entered into with the private sector contractor to provide future road and bridge maintenance services to the Province.

The Government's privatization program continued to move forward during the past year. More privatizations were completed, and services were provided by private sector contractors under agreements reached as part of privatizations completed earlier. This year's Annual Report includes the results of our value-for-money audit of another significant "point of sale" privatization that was completed in the last year — the sale of the

Westwood Plateau lands. For privatizations completed earlier, the focus of interest shifted from the point of sale to the services provided by the private sector companies under the service agreements that formed part of the privatization contracts. In keeping with this change in focus, our Annual Report includes the results of our value-for-money audits that examine the government's monitoring of three earlier privatization contracts — environmental laboratory services, road and bridge maintenance, and highway signs.

During the last few years, the government has sold a large number of land holdings. Several of these sales have generated considerable public interest and led to questions as to whether the processes used by government to sell properties have been appropriate, and whether the processes ensured that fair value was received for the properties. This Annual Report includes an examination of the processes used by government to acquire and dispose of land.

Ministry of Transportation and Highways: Introduction

In 1989, we began a value-for-money audit in the Ministry of Transportation and Highways.

British Columbia's large area and difficult topography require a large investment of public monies in transportation, particularly highways. The Ministry of Transportation and Highways has two main responsibilities: to inform the government of the overall transportation needs of the province, and to build and maintain the provincial highways.

The Ministry of Transportation and Highways has the fourth largest budget in the government ($1.016 billion in the 1989/90 fiscal year), after the ministries of Health, Education, and Social Services (Figure 3.1).

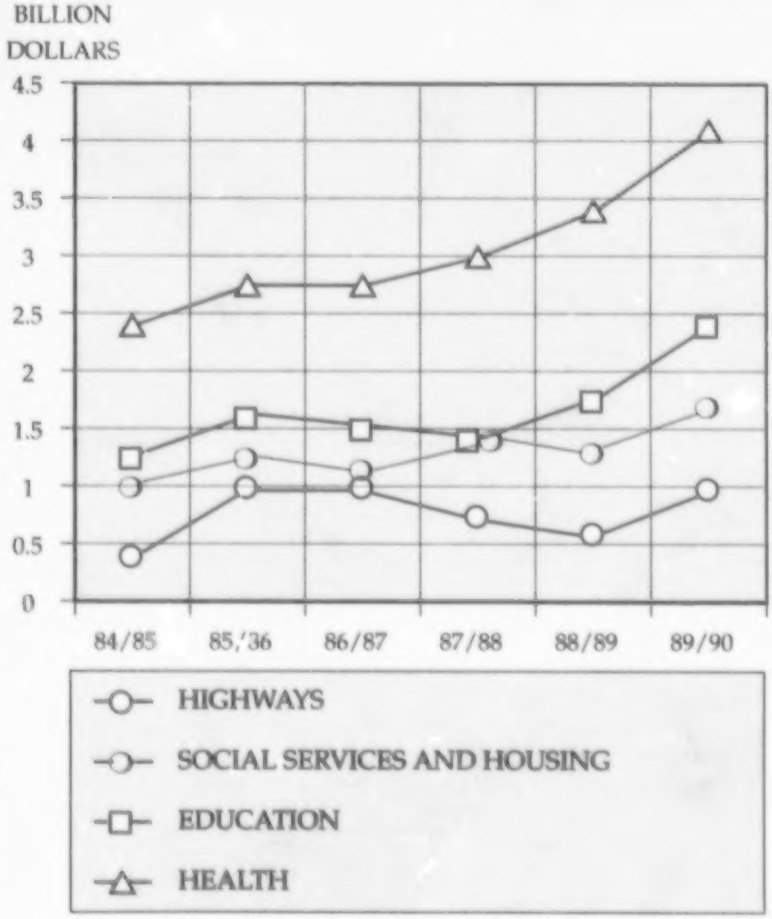


FIGURE 3.1

Major Government Expenditures

Although the size of the Ministry of Transportation and Highways' budget ranks it with the other three large ministries of government, there are some distinct differences in its operations.

The majority of the funds expended by the ministries of Health, Education, and Social Services are committed to ongoing programs. There is little flexibility for discretionary spending. The spending of the Ministry of Transportation and Highways, on the other hand, can be somewhat more discretionary. A sizable portion of the ministry's funding is required for routine road maintenance. Maintaining a highway is, in some respects, similar to maintaining a home. Although maintenance work should be done to both structures before they sustain permanent damage, there is a fair amount of flexibility in how much work, and what work, is done from year to year. Additionally, the ministry spends a significant portion of its budget in most years on new highways and highway upgrading. There is often considerable discretion involved in determining which of these projects will be undertaken, and when.

The operations of the Ministry of Transportation and Highways differ from those of the ministries of Health, and Education in another important way. Although the provincial government provides the majority of the funding for health and education programs, the programs are delivered to the public by other organizations, such as hospitals and school boards. In contrast, the Ministry of Transportation and Highways delivers its programs directly, although it does contract out certain aspects of program delivery.

The size of the ministry's budget, the discretionary nature of its spending, and its direct program delivery each contribute to the complexity of the ministry and to the significance of its accountability reporting.

In 1987, the government appointed Mr. Douglas L. MacKay as a commissioner under the *Inquiry Act* to examine a number of issues relating to the costs of highways constructed in the Province in recent years. In his report, the Commissioner was critical of the way in which the ministry planned, controlled and reported major highway construction projects. In our March 1988 Annual Report, we commented on Commissioner MacKay's findings and committed to a program of monitoring the ministry's progress in responding to the Commissioner's recommendations. As part of meeting this commitment, we examined the ministry's management of major highway projects during our audit this year.

The Ministry of Transportation and Highways was also the focus of attention as a result of the government's privatization program. The ministry completed the largest privatization of any government ministry when it contracted road and bridge maintenance to private sector firms between September 1988 and March 1989. This led to considerable controversy as to the effect this might have on the condition of the roads and on the safety of the travelling public. We included in our audit an examination of the privatization of highway maintenance and its effect on driving safety.

The ministry also sold its sign shop as part of the government's privatization program. Since then, the government has purchased all highway signs from the private sector company that bought the sign shop. We included a review of the ministry's experience in managing its sign purchases as part of our value-for-money audit.

Because of the size of the ministry, and the significance and complexity of the issues it is responsible for, it has been necessary for us to schedule our audit over a two-year period. The following audit projects were completed during the past year and are reported in this Annual Report.

- Road and Bridge Maintenance — the privatization of highway maintenance and its effect on driving safety
- Major Capital Projects — a review of the process for managing highway construction projects
- Development Approvals — a review of the approval process for subdivision of land in rural areas and for access permits to provincial highways
- Gravel Management — managing the supply of gravel for highway construction and maintenance
- Buying Signs — a review of the relationship between the ministry and the privatized sign shop
- Services, Facilities and Attractions Signs — an examination of the ministry's implementation of the Services, Facilities and Attractions sign program
- Annual Report — a review of the ministry's accountability reporting

One other aspect of ministry operations — buying land needed for highway rights-of-way — was reviewed in our audit of the acquisition and disposition of land by the Province which is reported separately in this section of our Annual Report.

In next year's Annual Report, we will report the results of audits that examine whether the ministry maintains roads for the lowest life-cycle cost, whether it gets good value on smaller-scale road and bridge construction projects, and whether it has a rational process for setting priorities in spending on highways and other modes of transportation.

Ministry of Transportation and Highways: Road and Bridge Maintenance

The privatization of highway maintenance and its effect on driving safety

Audit Purpose

For the past year, private sector companies have maintained the province's highways and bridges. Nevertheless, the Province remains responsible for ensuring that roads are in safe driving condition, and that the public's sizable investment in highways is protected. In addition, the Ministry of Transportation and Highways has a responsibility to maintain highways in a way that makes best possible use of public funds.

We conducted this audit to assess whether the ministry has shown due regard for economy by contracting for the right types of maintenance services, in the appropriate quantity and quality, to ensure the safety of the driving public. To do this, we evaluated the ministry's winter, emergency and traffic control maintenance standards. We also assessed whether the ministry is ensuring that contractors comply with its safety-related maintenance standards.

In this audit, we did not review the ministry's standards and activities designed to protect the physical structure of roads and bridges. We intend to audit these aspects of the program next year.

We carried out our audit between September 1989 and January 1990. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

The ministry has specified safety-related standards for road maintenance in its maintenance contracts. In our opinion, these standards meet generally accepted industry standards and practices. However, the ministry would have greater assurance that contractors were maintaining the roads in safe driving condition if the contracts included both standards for managerial control and specific incentives for good performance. Also, we believe the ministry should do more research to determine whether its maintenance standards actually produce roads that are in safe driving condition.

The ministry has designed a monitoring system to determine if contractors are meeting the safety standards, and to direct them to comply if they are not. We concluded that this monitoring system covers all the maintenance standards. However, we found that the ministry has not carried out all of the monitoring requirements and, consequently, has incomplete information on contractor performance.

Privatized Road Maintenance

Maintaining Roads

Road maintenance is carried out to ensure the safety of the driving public, to protect the highway structure, and to maintain the long-term service life of the roads. Examples of safety-related maintenance work include removing snow and ice, maintaining road signs, reporting highway conditions, and responding to motor vehicle accidents and other emergencies, such as avalanches, rock slides and washouts. On the other hand, sealing pavement cracks and maintaining ditches are examples of work done primarily to protect the highway structure and extend its life.

Contracting Out

Between September 1, 1988, and April 1, 1989, the government contracted out all the maintenance of the province's roads and bridges. To do this, the province was divided into 28 contract areas and a public tender was held in each. Contracts were awarded to 20 firms, with some firms securing two or more contracts. Ten of these firms were owned by former ministry employees.

A uniform three-year contract, specifying the same maintenance standards, was signed in each contract area. The contracts are for a fixed price, although the ministry can buy extra work on a unit price basis. Payments under the contract are made monthly, regardless of the amount and nature of maintenance work performed during the month. In total, the ministry will pay $750 million to the contractors over the three-year term of the contracts.

Monitoring the Contracts

After privatization, the ministry was reorganized into 28 highways districts. Each district corresponds to a contract area and has a District Highways Manager responsible for monitoring contractor performance. Each manager supervises an average of five area managers, who in turn carry out most of the activities designed to ensure contractor compliance with the maintenance standards. There are 141 area managers in the province.

The maintenance standards set by the ministry specify the conditions in which the roads must be maintained by the contractor. The ministry in most cases does not specify how the contractor should accomplish this, leaving the contractor responsible for the overall management of the maintenance operation. To assess and rate the contractors' performance, ministry staff inspect the condition of the roads. Regional and head office ministry personnel meet with representatives of the maintenance contractors on a regular basis to discuss issues and resolve problems.

Significance of the Privatization

Privatization of road and bridge maintenance has required major changes in the ministry. In less than a year, it had to write detailed specifications for 64 maintenance activities, negotiate the 28 maintenance contracts, transfer over 2,000 staff to the private sector employers, establish a contract monitoring organization, develop a quality assurance system, and train over 200 staff for important new functions in monitoring contractor performance. We performed this audit within the first year after privatization.

Maintaining Safe Roads

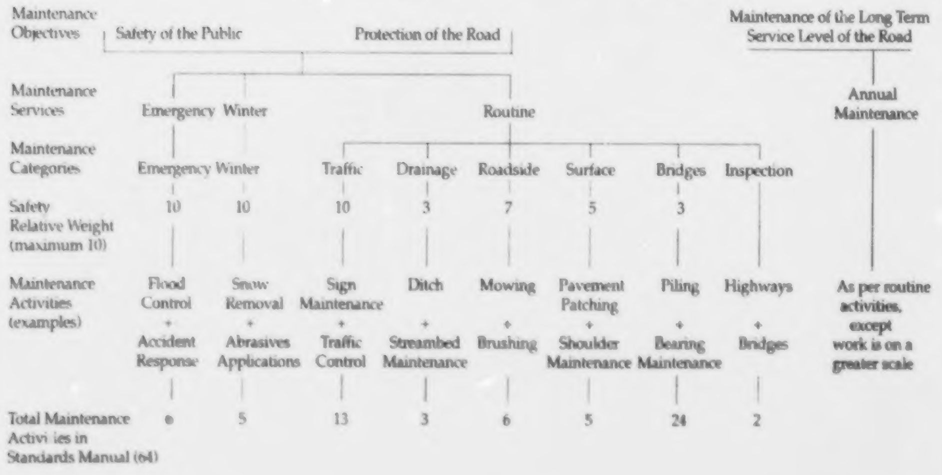
To assess the ministry's maintenance program thoroughly, we decided to carry out our audit in two steps. The first step, on which we are reporting now, examined what the ministry does to ensure public safety. The second step, which we intend to report on next year, will investigate what the ministry does to protect provincial roads and bridges and to maintain the long-term service life of the highway system. It will also examine issues of cost-effectiveness.

The success of the maintenance program in achieving safety depends on two factors: having adequate safety-related road maintenance standards, and ensuring the standards are met.

To assess the safety-related maintenance standards, we compared them to those used by the ministry before privatization and to those used in other jurisdictions. We also reviewed how the ministry determines the impact of its standards on safety.

To assess compliance with the standards, we examined the ministry's Quality Assurance Program. We studied the program's design and the way it was carried out.

Road and Bridge Maintenance Program


Maintenance Objectives
Safety of the Public
Protection of the Road
Maintenance of the Long Term Service Level of the Road
Maintenance Services
Emergency
Winter
Routine
Annual Maintenance
Maintenance Categories
Emergency
Winter
Traffic
Drainage
Roadside
Surface
Bridges
Inspection
Safety Relative Weight (maximum 10)
10
10
10
3
7
5
3
Maintenance Activities (examples)
Flood Control + Accident Response
Snow Removal + Abrasives Applications
Sign Maintenance + Traffic Control
Ditch + Streambed Maintenance
Mowing + Brushing
Pavement Patching + Shoulder Maintenance
Piling + Bearing Maintenance
Highways + Bridges
As per routine activities, except work is on a greater scale
Total Maintenance Activities in Standards Manual (64)
6
5
13
3
6
5
24
2

Road and Bridge Maintenance Standards

The Road and Bridge Maintenance program is structured hierarchically into maintenance services, maintenance categories and maintenance activities. It is at the maintenance activities level that the ministry has written its maintenance standards. In total, there are 64 maintenance standards documented.

Each standard has been written in a similar manner. Each standard identifies the following components:

A. Maintenance Services - a statement of the objective of the maintenance activity. If the maintenance activity has a safety component, it will be stated here.

B. Specification - a statement of the performance standards, generally results oriented, or technical specifications for materials.

C. Scheduling - specifies the time (response time) allowed for meeting the performance standard.

The ranking of each maintenance category as to its impact on safety and protection of the road has been developed as part of the evaluation component of the Quality Assurance Program. Three maintenance categories have as their objective to maintain the safety of the driving public. These three are winter, emergency and traffic control. The other routine road maintenance categories also have safety as an objective, but to a lesser degree. Overall, the weighting of routine maintenance work is more toward safety than protection of the road.

British Columbia's Safety-Related Standards

Although private sector companies now maintain the roads in the province, the Ministry of Transportation and Highways remains responsible for the safety of the driving public. When it privatized highway maintenance, the ministry established maintenance standards which specify how roads are to be maintained to ensure safety.

Adequacy of Safety-Related Standards

We found that the safety-related standards specified for contractors by the ministry meet generally accepted standards. The levels of maintenance stipulated in the contracts are equivalent to those used by the ministry when it carried out maintenance activities itself, and to those used in other jurisdictions. However, the ministry has not established standards for managerial control to satisfy itself that the contractor can carry out the work in the proper manner.

When the government privatized highway maintenance, it sought to ensure that recent levels of service would be maintained. To achieve this, ministry officials evaluated service levels before privatization and translated them into the maintenance standards that are specified in the current contract.

Before privatization, the ministry defined most of its maintenance service levels by specifying the resources or inputs needed to carry out maintenance operations. For instance, with winter maintenance, it suggested a plowing rate of 150-170 km per day, as well as a productivity rate for the plow operator. Under privatization, however, these definitions were reworded mostly in terms of the results that the contractor is expected to achieve. The contractor is now to perform snow removal so that snow does not accumulate beyond a specified depth for a given class of highway. There are no specifications for daily plowing rates or number of plows. Expressing expectations in terms of results is intended to allow the contractor to develop ways to improve the efficiency of maintenance operations and the productivity of staff. The evidence we obtained shows that the current standards meet or exceed the level of service provided by the ministry in recent years.

As part of our audit, we compared British Columbia's safety-related maintenance standards to those of Ontario and Alberta, as well as to those published by the American Association of State Highway and Transportation Officials. In all cases we found them to be similar. We also assessed whether British Columbia's safety standards covered all major safety hazards, and we found them to be complete.

When the ministry contracted out maintenance activities, it contracted out the management of these activities as well. The management practices adopted by contractors can significantly affect their ability to meet the maintenance standards specified by the province. For example, if a contractor has a written strategic plan for dealing with winter storms, chances are good that he will perform to the maintenance standard when a storm actually occurs. Such a plan should be known by all crew members and ministry staff in the district. It should also have been rehearsed at least once before winter and should be assessed after each storm so that necessary adjustments can be made.

Other sound management practices include: ensuring the driver of a sander is properly trained; establishing a regular maintenance program for trucks and other snow removal equipment to keep them in good running order; and ensuring sufficient sand is available in convenient locations.

These practices, together with a quality control program to ensure that each step leading to the final maintenance activity is properly carried out, are simple procedures which improve the likelihood that maintenance will be performed to the standard specified by the ministry. An added benefit of having a quality control program is that it can reduce the time and energy ministry staff must spend on subsequent quality assurance.

The ministry interacts informally with the contractors to urge them to adopt sound managerial control practices. Unlike other jurisdictions we reviewed, the ministry has not set formal standards for the managerial control of maintenance operations as part of the contract. Ontario, for example, specifies planning procedures for winter maintenance that deal with logistics, training, duties and dry-run rehearsals.

We believe the ministry should specify the methods it expects contractors to use to organize for winter maintenance. For example, it should require contractors to have sufficient abrasives and de-icing chemicals available in convenient locations for the winter season. As well, it should require contractors to train their staff so that crews are familiar with their tasks before the first storm.

The ministry should make contingency planning a managerial control standard for contractors. Each contractor should have a contingency plan that can be activated when safe driving conditions are threatened despite the contractor's best efforts. Maintenance contractors could, for example, ensure that subcontractors with the appropriate equipment, manpower and knowledge, are readily available to provide additional road maintenance if needed.

Setting standards for managerial control would clarify the ministry's expectations of the contractors' management and increase the likelihood of road maintenance standards being met. We recommend that the ministry make standards for managerial control a requirement of the next maintenance contracts. This would allow the ministry to verify that the standards are being followed. In the interim, the ministry should encourage all contractors to implement and maintain sound management practices.

The Standards' Impact on Safety

In our opinion, the ministry does not sufficiently evaluate the impact of its safety-related road maintenance standards on the driving public to know if the standards are appropriate. We believe the ministry should do more to determine whether its road maintenance standards actually produce safe driving conditions.

Establishing a link between safety-related maintenance standards and actual safety is difficult. We examined the practices followed in several jurisdictions and did not find any jurisdiction that had established a direct relationship between maintenance standards and safety. All seemed to operate on the premise that, if safety-related standards are met, the roads must be safe.

When motor vehicle accidents occur, driver error, weather conditions, poor road design, mechanical failure, or road conditions can be significant contributing factors. It is difficult to pinpoint one factor as the cause of the mishap. Most jurisdictions, including British Columbia, analyze motor vehicle accident trends to determine possible causes for any shifts. The ministry, however, does not use the results of this analysis to evaluate, on a timely basis, its safety-related maintenance standards to determine whether changing the standards would improve road conditions.

One way the ministry could more actively monitor the effect of its safety-related standards on the safety of the driving public would be by getting regular reports on driving conditions from highway users. At the provincial level, for example, reviews with commercial users of the highway system such as truckers and bus companies, with public users such as the British Columbia Automobile Association, and with safety-related organizations such as the Insurance Corporation of British Columbia and the Safety Council of British Columbia would give the ministry valuable information on how effectively the maintenance standards are meeting safety objectives. At the district level, the ministry could ask such highway users as the RCMP, school bus drivers, truckers, and members of the driving public for their perception of the condition of the roads. This process would provide the ministry and the contractor with indications of how well maintenance standards correspond to the public perception of safety. Improvements in maintenance standards and practices could be made, and better communication and coordination between the ministry, contractor and highway users could be achieved.

We urge the ministry to develop better ways to assess the impact of its safety standards on the driving public.

The Quality Assurance Program

The ministry has developed and implemented a Quality Assurance Program to provide it with assurance that its maintenance standards are being met by the contractors.

The Program's Design

We found the Quality Assurance Program provides the ministry with a method of uniformly assessing and documenting contractor road maintenance performance throughout the province. It requires the contractor's performance to be inspected and assessed against each safety-related maintenance standard in the contract. Furthermore, the program calls for an assessment of the contractor's management, even though the contract does not permit an objective appraisal because it does not specify managerial control standards. We found no statistical support for the sampling sizes and sampling frequencies defined by the program and had some concerns about the sampling methods used by the ministry. Nevertheless, we concluded that the inspection levels required by the program are sufficient for the ministry to form a general assessment of the contractor's overall performance.

The ministry's Quality Assurance Program is made up of two components: quality verification and quality assurance audit.

Quality verification consists of inspections and tests carried out by area managers to measure the extent to which contractors are meeting the standards for maintenance activities and materials. This is the main component of the Quality Assurance Program.

We found the quality verification process was comprehensive. It includes road inspections, materials testing, and an appraisal of contractor management practices.

Road inspections are required to assess contractors' performance against each road maintenance standard. There are three kinds of road inspections. Present-state inspections call for area managers to inspect road conditions randomly. In-process inspections are done while maintenance work is going on to make sure it is properly performed. End-product inspections check whether the completed job is up to standard. Area managers carry out the inspections, and rate each contractor's overall performance.

For each road inspection there is a form that specifies what must be inspected. Space is also provided for the area manager to record his appraisal. The program is designed to ensure that all types of maintenance activities are checked, that the same method for inspecting and recording is used by each area manager, and that all contractors are treated uniformly and their performance rated comparably.

The Quality Assurance Program sets minimum requirements for the number and frequency of inspections to be carried out. For example, each area manager is expected to carry out 15 present-state inspections on randomly selected 2 km portions of road each month. These inspection sample sizes and frequencies apply whether the territory is small (a total of 100 km of road) or large (a total of 1,200 km of road).

The ministry determines the sample sizes and frequencies required by the program on a judgmental rather than statistical basis. An overriding concern of the ministry, we were told, was to set inspection levels that were attainable by area managers. We believe this can weaken the validity of the quality verification results and create diseconomies. Statistically, the number of present-state inspections required should be proportional to the size of the area manager's territory. We believe a statistically rigorous sampling approach is preferable. It would strengthen sampling results by allowing the ministry to determine the accuracy of its testing more precisely. It might also reduce the cost of carrying out the inspections by allowing the ministry to calculate more exactly the sample sizes needed to gain the desired assurance.

The quality verification process also tests samples of the materials used by contractors for road maintenance. Material testing consists of checking whether samples of materials used in road maintenance meet contract specifications. The program design requires materials to be tested at three points: at their source (e.g., gravel supplied from a private pit); while they are being prepared (e.g., asphalt being mixed); and once they are in place (e.g., road beds tested for proper compaction). Materials to be tested and frequency of testing are specified by the program. As well, contractors must provide certificates of compliance for the materials they use when requested to do so by the area manager. Although these requirements ensure the completeness of the testing procedures, sampling is left to the area manager's judgment. We find this inconsistent with the program's stated goal of eliminating checks based on personal discretion.

We believe the ministry should review its sampling procedures to ensure they produce valid performance assessments and to ensure road inspections are carried out economically. Statistically based sampling may be more appropriate.

Quality assurance audit is an internal audit process designed to determine how well quality verification is done by district staff. A staff member from the ministry's head office regularly visits each district to meet every area manager and district highways manager. The auditor interviews the staff involved with quality verification, and reviews documents such as inspection reports to verify they are in keeping with the procedures established in the program.

Quality assurance audit has three objectives: to ensure that quality verification is being properly and uniformly applied in all contract areas; to provide senior management with district staff's assessment of the effectiveness of the program; and to invite recommendations for revisions and improvements to the quality verification program. At the time of our review, the ministry's quality assurance auditor was completing the first round of audits throughout the province. We examined the auditor's reports for those districts we assessed and found the findings matched ours. District staff we interviewed considered the process an opportunity to receive ongoing training and to have local issues addressed and problems resolved.

Quality assurance audit is an effective means of improving the design and application of the quality verification process, because it involves all area managers and district highways managers. To be fully successful, however, internal audit must inform ministry management of the state of its contract monitoring process. We found that the results of audits are being reported to operational managers, but to date no summary of the results has been provided to the ministry's executive.

We think the ministry should ensure that the quality assurance auditor provides the ministry executive with regular management reports, telling management whether or not it can rely on quality verification to ensure contractors are complying with the maintenance standards in the contract.

The Program's Application

Road Inspections

We found that ministry staff are not carrying out road inspections to the levels required by the Quality Assurance Program. Consequently, the ministry cannot determine whether contractors are meeting its safety-related maintenance standards. As well, the inspection results are not reliable because there are inconsistencies in the interpretation and application of standards from one contract area to the next.

For the inspection results to be reliable, the three types of road inspections — present-state, in-process and end-product — must be carried out to the required levels each month. We found that area managers had difficulty regularly doing the required inspections because of their workloads and because of poor planning by contractors.

To manage their workload and use their time and energies efficiently, area managers coordinate their random road inspections with other field activities. We found that area managers sometimes had difficulty achieving the required number of road inspections because of the seasonal variations in maintenance work. Other duties, such as managing minor road construction, sometimes take precedence over road inspections.

The inspection frequencies specified in the quality verification program represent the minimum levels area managers are expected to complete each month. Failure to meet these inspection levels results in incomplete data which may not accurately reflect the degree of contractor compliance with safety-related standards. We believe the ministry should review how the workload of its area managers affects their ability to carry out quality verification. Steps should be taken to ensure that the required monthly levels of inspection are always met.

Several problems with the inspection process were notable. For example, although contractors must plan and report their work schedules to the area managers sufficiently ahead of time for in-process and end-product inspections to occur, we found that this was not always being done. Inspections are therefore often impossible.

As well, area managers are expected to apply standards consistently from one contract area to the next to achieve comparable quality verification results. Such consistency ensures the fair and equal treatment of each contractor and provides reliable information on performance. We found, however, that because of a lack of initial training, ministry staff interpreted the standards differently when carrying out quality verification during the first months of the contract. Area managers sometimes judged contractor performance against the way things had always been done in an area rather than against the standards in the contract. Consequently, ministry staff with different experiences had different expectations of the quality of safety-related maintenance work, and their ratings were notably inconsistent. Over the first six months, for example, the number of Non-Conformance Reports issued by contract area ranged from 2 to 228.

The ministry is aware of this inconsistency problem and began acting on it in the fall. During the time of our audit, training sessions were being held for staff in several districts to develop a common understanding of the program's application.

Rating Contractor Performance

The ministry has not been effective in rating performance or in communicating overall performance results to its contractors.

The quality verification process is designed to provide the ministry with information about the degree to which contractors meet its maintenance standards. The process should produce basic information about road conditions in specific locations and at particular times, and an evaluation of contractor performance.

During the quality verification process, the findings of each inspection are documented on inspection forms. These findings do not go directly to the contractors, although contractors will be notified of significant problems. For example, area managers issue a Defect Notice for road conditions that are not to standard and are a safety hazard. The contractor is expected to correct the problem within the period specified in the standard for that condition. This is called the response time. If the problem is not acted upon within the response time, then a Non-Conformance Report is given to the contractor. A Non-Conformance Report will also be issued for maintenance work that is not to standard, and will specify what needs to be done.

The Quality Assurance Program requires the ministry to gather and evaluate the information on the inspection forms and to prepare a contractor evaluation report each month. We found the evaluation report phase has not yet been carried out effectively. Monthly evaluation reports were not provided to contractors during 1989 because problems were encountered in processing the inspection findings. The first results of this evaluation system were provided to contractors in January 1990.

Until January, the only formal communication of evaluation results to contractors consisted of Defect Notices and Non-Conformance Reports, documents that focus on the negative aspects of performance. Not surprisingly, we found that many contractors questioned the validity of the program and the performance ratings it generates, because they viewed the program as too negative in its focus. Although ministry field staff tried to compensate for this problem by providing informal evaluations about performance in general, not all staff provided this appraisal, and those that did provided only a limited amount of information.

Once it is operating, the contractor evaluation report should provide the ministry and contractors with a monthly summary of the results of the inspections undertaken by area managers. These should give contractors an overall assessment of their performance. The value of these reports will depend on the degree to which the expected minimum number of inspections are carried out and the rigor applied to them.

Ensuring Compliance

The ministry could better ensure that contractors comply with the safety-related maintenance standards if it improved its performance incentives.

Contractors have little incentive to do more than meet the standards because the monitoring process does not formally recognize above-standard performance. Furthermore, when performance is substandard, the contract gives the ministry little flexibility in applying penalties. If the Quality Assurance Program indicates that a contractor's performance is not to standard, the ministry has two forms of redress: it can remedy substandard performance by taking an exceptional step such as having the work performed by someone else and charged to the contractor; or it can consider the contractor's performance in the next round of contract negotiations.

Short of taking drastic measures or not renewing a contract when it ends, there are no immediate performance incentives or penalties included in the maintenance contract. This curtails the day-to-day effectiveness of the monitoring that is carried out by the area managers. We believe each contract should contain more flexible and effective performance incentives and penalties.

One way to do this would be to link the contractor performance information generated by the Quality Assurance Program to the monthly payments made to the contractors. This would give the area managers' assessments more value and should make the program far more effective in motivating contractors to comply with the maintenance standards.

We believe the ministry should include a range of performance incentives and penalties, developed from the results of the Quality Assurance Program, in its next maintenance contracts.

Looking Ahead

The Legislative Assembly should expect the ministry to review its quality verification sampling plan to ensure it produces valid results economically, and to make sure the required inspections are performed.

In the next round of contract negotiations, the Legislative Assembly should also expect the ministry to incorporate managerial control standards and performance incentives into the maintenance contracts.

Ministry of Transportation and Highways: Major Capital Projects

A review of the process for managing highway construction projects

Audit Purpose

We conducted this audit to assess whether the ministry is able to ensure that it gets value for money on major highway construction projects.

In December 1987, Commissioner Douglas L. MacKay reported the results of his inquiry into the estimated and actual costs of highways constructed in British Columbia. In his report, the Commissioner was critical of the way the Ministry of Transportation and Highways planned, controlled and reported major highway construction projects. Since then, the ministry has established processes specific to the management of major projects, which it defines as highway construction projects costing more than $50 million. In this audit, we examined those management processes. We did not, however, review the methods used by the ministry to establish the need for new highways or highway upgrading, or to choose construction contractors. We intend to consider these aspects of the program during our audits next year.

We carried out our audit between August 1989 and January 1990. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We found that the ministry has significantly improved the way it manages major highway construction projects since Commissioner MacKay reported his findings in 1987. However, its current processes and resources are not sufficient to ensure that it gets value for money on its major projects.

The ministry has developed an appropriate organizational structure for managing major projects. It is able to document the scope — the extent, type of road, cost estimate, and schedule — of the projects it carries out, although it lacks the resources to ensure that its cost estimates are accurate enough for its needs. Furthermore, the ministry has not developed adequate systems for ensuring it gets the best price for consultant services, or for making best use of the markets for contracting and for consulting services. Finally, its process for reviewing the quality of purchased services is not fully developed, especially in areas where it has only recently started to buy services.

"Major Project" Defined

The ministry defines as "major projects" all construction projects costing more than $50 million, and some smaller projects of special complexity. There were seven major projects under way at the time of our audit, accounting in total for 18% of the ministry's 1989/90 budget (Figure 3.2 and its accompanying map).

Background: A Ministry Undergoing Extensive Change

The Forces Acting Upon the Ministry

The ministry's management of large projects has recently undergone extensive public scrutiny. As a result of concerns about the cost of the Coquihalla Highway, a Commissioner, Mr. Douglas L. MacKay, conducted an inquiry in 1987 and concluded: "[I]n the matter of the Coquihalla Highway, the legislature lost effective control of the public purse."[1]

In our 1989 Annual Report, we discussed the ministry's progress in seven areas where the Commissioner found deficiencies. These were: organization, planning, the approval process, cost estimating, project management, cost control and reporting, and public accountability. We concluded that the ministry had begun corrective action in each area, but we did not assess the appropriateness or completeness of these actions. That assessment is the subject of this audit.

While under outside scrutiny, the ministry was being buffeted by changes in government policy. Privatization affected ministry capital projects, not just highway maintenance. Private sector consultants now do much of the design, engineering, and construction management work on capital projects. Ministry staff used to do most of this work. The government's regionalization policy shifted professional staff from ministry headquarters to the regions. Over 700 experienced staff members, including many senior engineers and technicians, left the ministry when they opted for the government's Early Retirement Incentives Program. The general reduction in government staffing made it difficult for the ministry to create the new positions needed to deal with the criticisms of Commissioner MacKay.

The ministry has had to respond to all these forces for change, while still carrying on an extensive program of road construction. Spending on major capital projects declined for two years after the Coquihalla peak. This year (1989/90) spending rose again substantially.

Ministry Reorganization to Meet These Challenges

In October 1988, the ministry carried out a wide-ranging reorganization. It set up a separate management structure for major projects under the Assistant Deputy Minister, Planning and Major Projects.

Each major project has a director who has full responsibility for the project. The director leads a project team, whose members have

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[1] Report of the Commissioner Inquiry into the Coquihalla and Related Highway Projects, Douglas L. MacKay, P.Eng., Government of Brtitish Columbia, 1987, p. xiv

FIGURE 3.2

Major projects announced

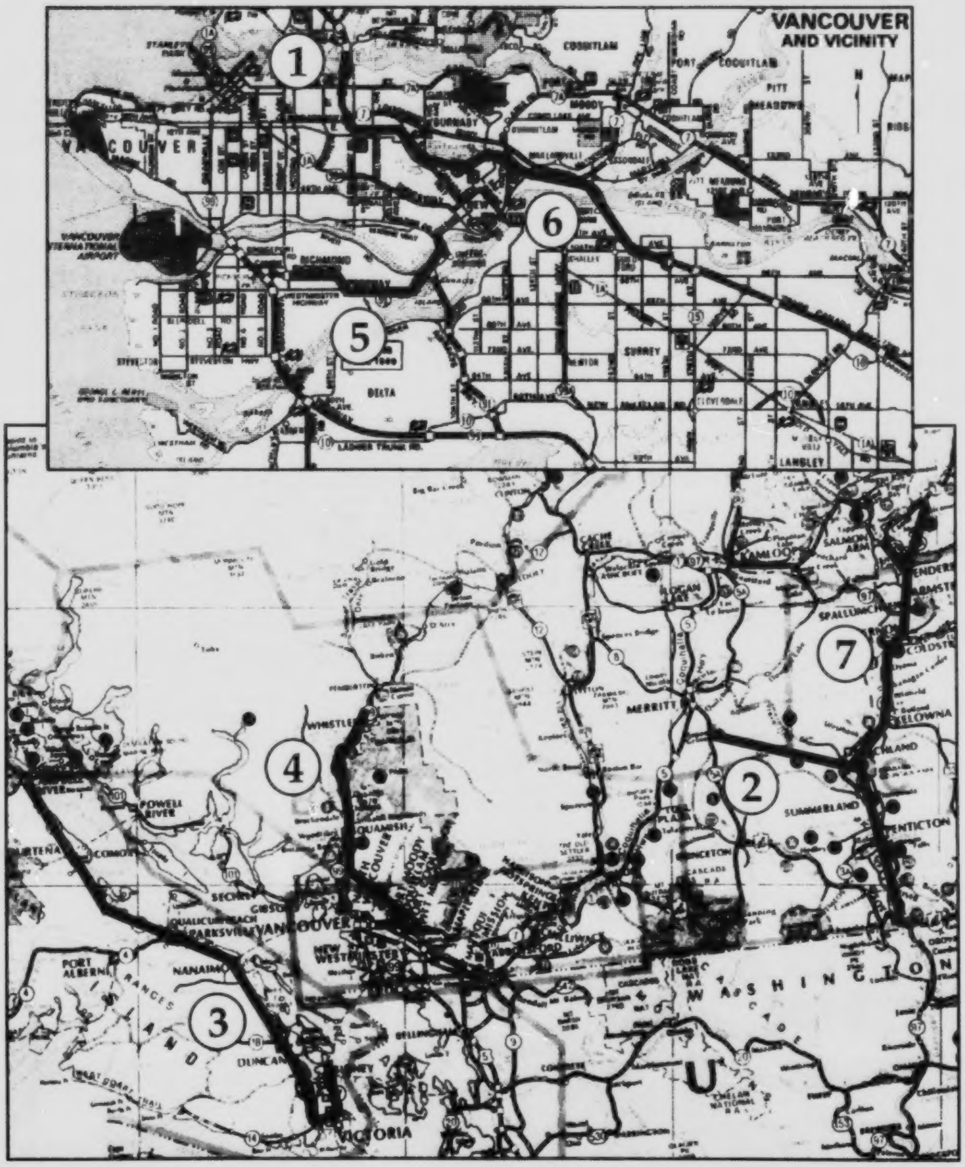
	Project	Location	Description	Announced Total Cost (million dollars)	1989/90 Budget Estimates (million dollars)
	ACTIVE:				
1	**Cassiar Connector**	Vancouver	freeway, with tunnel and interchanges, linking highway 1 and second Narrows Bridge	89	20
2	**Okanagan Connector**	Merritt-Peachland	new route (4-lane freeway)	225	86
3	**Vancouver Island Highway**	Swartz Bay-Victoria-Campbell River	upgrade existing road system	600+	30
	PLANNING STAGE:				
4	**Sea-to-Sky Highway**	Vancouver-Whistler	upgrade existing route	not announced	13
5	**Fraser River Crossing**	Richmond	develop links to Alex Fraser Bridge	not announced	14
6	**Burnaby Freeway**	Vancouver-Surrey	upgrade Highway 1	not announced	1
7	**Okanagan Highway**	U.S. Border-Highway1	upgrade Highway 99	not announced	23

FIGURE 3.2

Major projects announced

Major Projects Announced

1. Cassiar Connector
2. Okanagan Connector
3. Vancouver Island Highway
4. Sea-To-Sky Highway
5. Fraser River Crossing
6. Burnaby Freeway
7. Okanagan Highway


VANCOUVER AND VICINITY
1
2
3
4
5
6
7
VANCOUVER
BURNABY
COQUITLAM
PORT COQUITLAM
PITT MEADOWS
RICHMOND
DELTA
SURREY
LANGLEY
VANCOUVER INTERNATIONAL AIRPORT
KAMLOOPS
SALMON ARM
MERRITT
WHISTLER
POWELL RIVER
SQUAMISH
COMOX
SECHELT
GIBSONS
PARKSVILLE
NANAIMO
PORT ALBERNI
DUNCAN
VICTORIA
PRINCETON
SUMMERLAND
PENTICTON
KELOWNA
SPALLUMCHEEN
NEW WESTMINSTER
WASHINGTON

specialist skills in such areas as highway engineering, construction management, and land purchase. They coordinate, review, and supervise work in their specialty, rather than doing the work themselves. Most of the engineering work is done by private sector consultants. Land purchase and construction management may be done by ministry employees or by private sector firms on a contract basis.

We focused our audit on how well senior management fulfills its role of prudent purchaser of project management services. The basic project management structure is summarized in Figure 3.3. We concentrated on the major communication flows to and from the project team, which are highlighted in blue on the figure.

In the first communication flow, senior management tells the project team what it is responsible for producing. The first task here is to establish the need for the project. This part of the planning process is to be the subject of one of our audits next year. The second task is to define the project's purpose, physical form, cost and schedule. This creates a benchmark against which the project can be judged, which is usually called the *scope* of a project. (Scope may also be used more narrowly to refer only to a written definition of the physical form the project will take. In this report we will use it in its broader definition.) Many of Commissioner MacKay's recommendations focused on scope definition.

The second flow comprises the regular reports the team gives senior management on its progress towards the set goal. When effective, this communication allows senior management to provide a high-level perspective on the project, to intervene when necessary, and to leave the team to get on with its job if progress is satisfactory.

Two other upward flows are the reports the ministry gives the government on the progress of its projects, and the reports the government gives the Legislative Assembly and the public.

The final important information flow is the two-way communication between the team and the ministry experts who senior management rely upon to review the technical quality of the work being done for the project. With the ministry now contracting out much of the actual management of major projects, this quality assurance role of ministry experts is of considerable importance.

The trend to contracting out is part of a major change in the way the ministry has conducted its business since Commissioner Mackay reported. Of the three major projects actively under way at the time of our audit, only the Okanagan Connector is managed completely by ministry personnel. The Cassiar Connector's project director and project team (except for land purchase) are supplied by a consulting firm. The Vancouver Island Highway is a hybrid, which will be managed by staff from a consulting firm reporting to a project director who is a ministry employee.

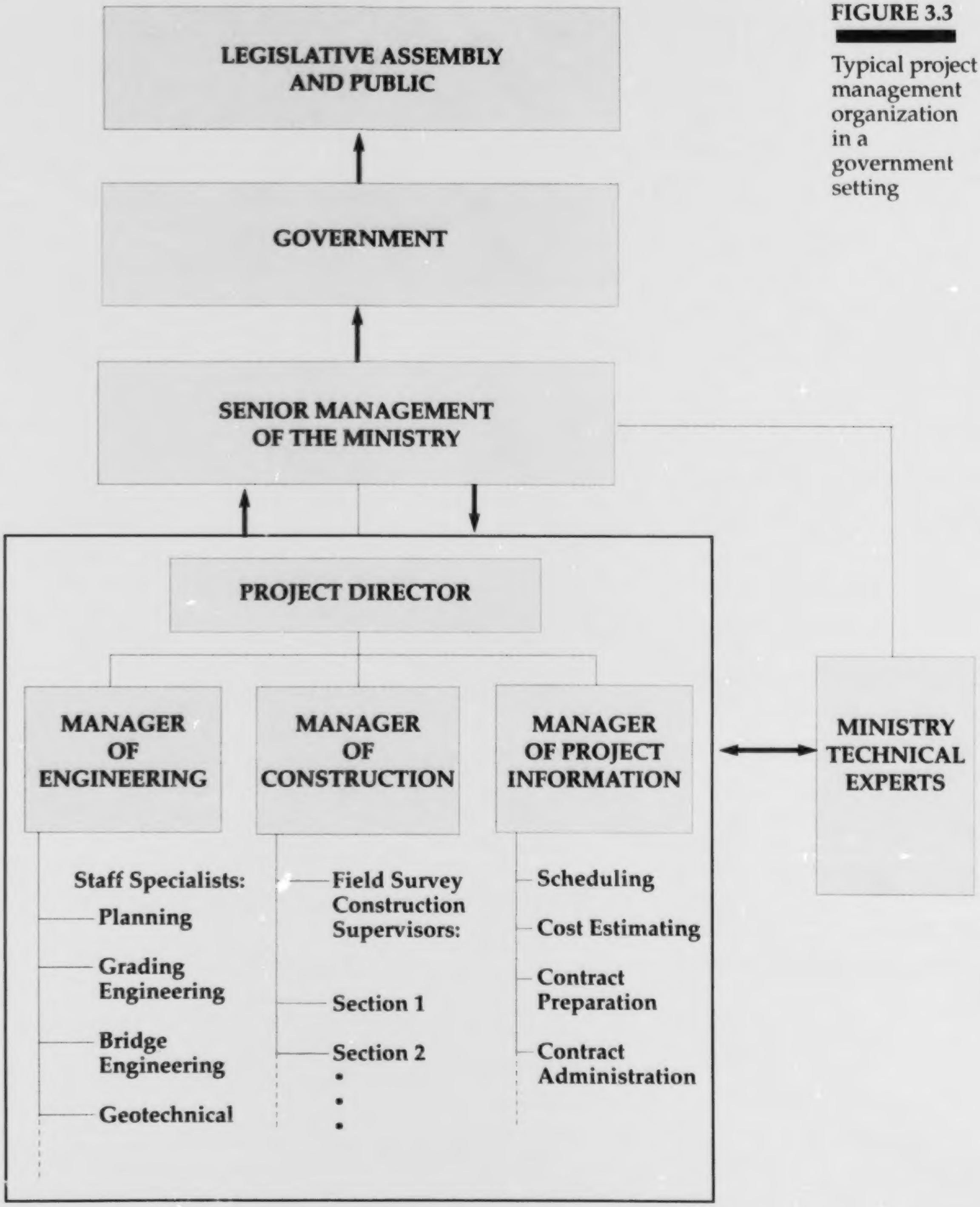

LEGISLATIVE ASSEMBLY AND PUBLIC
GOVERNMENT
SENIOR MANAGEMENT OF THE MINISTRY
PROJECT DIRECTOR
MANAGER OF ENGINEERING
MANAGER OF CONSTRUCTION
MANAGER OF PROJECT INFORMATION
MINISTRY TECHNICAL EXPERTS
Staff Specialists:
Planning
Grading Engineering
Bridge Engineering
Geotechnical
Field Survey Construction Supervisors:
Section 1
Section 2
•
•
•
Scheduling
Cost Estimating
Contract Preparation
Contract Administration

FIGURE 3.3

Typical project management organization in a government setting

Structure of This Report

To achieve value for money the ministry should:

- clearly understand and document what it wants to buy or produce;
- order what it wants, obtaining the goods and services at the best price; and
- ensure that it gets what it orders, and pays only for what it gets.

We will use this three-part definition of value for money as a structure for presenting our audit findings and conclusions.

Under "Defining What Is Wanted," we discuss how the ministry defines the physical nature, timing, and cost of its projects. In particular we focus on how it estimates the cost of its proposals.

Under "Ordering What Is Wanted and Getting a Good Price," we examine how the ministry contracts and settles on the price it pays for engineering services from the private sector. We then assess how the ministry manages its affairs to make best use of the markets that supply contractors' and consultants' services.

In "Getting What Is Ordered," we examine quality assurance; that is, how the ministry ensures that the services used in a major project meet ministry standards.

Defining What Is Wanted

The Project Scope

The ministry has made good progress in defining the scope of the major projects it undertakes.

Having the three parts of a project's scope — physical product, cost, and time schedule — in one understandable package is important to the government, senior management of the ministry, the project team, the Legislative Assembly, and the public. The government must know what the project will produce and the resources needed, so it can decide whether the benefits are worth the cost. Senior management needs a clear benchmark against which it can measure project performance. The project team needs a clearly stated scope so it can coordinate the work of the many different specialties involved in a major project. Finally, accountability to the Legislative Assembly and the public is aided by a clear scope statement. The lack of such a statement was a major concern of Commissioner MacKay.

On the Coquihalla, the lack of a single statement linking the exact boundaries of the project to its estimated cost resulted in much confusion. The Commissioner found it very difficult to understand whether the Coquihalla project was exceeding its budget without a clear definition of what sections of highway were considered part of the project.

On the Annacis project, the Commissioner commented: "[T]he disturbing part to the Commission is the lack of a systematic and regularized method to establish the requirements and the definitions of the project, that is to say, to establish the project scope" (MacKay, p. 45). He recommended that projects "be properly defined as to the overall functional scope necessary to accomplish their intended purpose" (MacKay, p. xviii); and that "the approval process for major projects requires a statement of functional scope, a total project estimate of the most probable final cost, a project schedule with annual budget requirements and evidence of proper planning" (MacKay, p. xviii).

The ministry has improved its scope definition since the Commissioner's inquiry. Now to get approval and funding for a major project the ministry must prepare a detailed scope statement for Treasury Board. All three active projects have gone through this approval process.

The scope document for the Cassiar Connector meets the major requirements of the Commissioner's recommendations.

The Okanagan Connector was under way before it was defined as a major project, and a full scope document had not been prepared when it started. The Commissioner recommended that "the need, scope, estimate of cost, and schedule of the Coquihalla Highway — Merritt to the Okanagan — be reviewed and a report, fully documenting these findings, be prepared for submission to government by March 1988." Soon after being appointed, the project team prepared a report which supplied most of the information called for by the Commissioner. This report did not state the need for, or value of, undertaking the project. However, the report included an analysis in favor of upgrading the two-lane sections of the road which, to some extent, supported the need for the entire project.

The Vancouver Island Highway project was publicly announced in November 1988. The cost, schedule and routing of the highway had not been adequately analyzed at the time of the public announcement. Since then, however, the ministry has been developing scope documents detailing the physical extent, road type, cost, and timing of the project. Our concern about the ministry's resources for cost estimating, which we discuss below, is particularly relevant to this project.

The other major projects are in the planning stages and not yet ready for formal approval of their scope.

Cost Estimating Hampered by Lack of Data Base

Ministry cost estimating guidelines are reasonable, but to be fully effective they must be supported by a ministry data base of past project costs.

Accurate cost estimates are essential to a clear definition of scope for a project. The significant question for government — Do the benefits of the proposed project justify the cost? — cannot be answered without good predictions of the cost.

Cost estimates are also necessary for managing a project effectively. If predicted costs are unexpectedly high, a decision can be made whether to spend more or to cut back the project, before construction starts. For example, cost estimates contributed to the decision to substitute an in-city route for the Nanaimo bypass on the Vancouver Island Highway project, by showing that the bypass would have cost significantly more than the in-city route.

The ministry also needs good cost estimates to prepare its budget and to manage its spending. The planned total spending on major projects is large enough that even minor inaccuracies can be significant.

Commissioner MacKay was highly critical of the ministry's cost estimating. He concluded that project estimating procedures were "haphazard, inconsistent, and ad hoc, do not evaluate risk and are not documented" (MacKay, p. 73); and that there was "no systematically collected and analyzed data for use in preparing estimates" (MacKay, p. 73).

In response to the Commissioner's report, a ministry task force developed guidelines for better estimating. These provide guidance on making consistent definitions and on dealing with uncertainty, two areas of special concern to the Commissioner.

Ministry staff need information about the costs of other projects readily available to them when they are preparing project estimates. For the most part, this information is not easily accessible now for road construction contracts, although the ministry has reference data for bridge-building and paving contracts. The ministry task force recommended that "establishment of [a] data base of existing information, unit prices, etc., should be commenced immediately and substantially complete by December 31, 1988." The ministry is developing such an estimating data base for road construction contracts, though not as quickly as was recommended. It expects to have some part of the data base operating by April 1, 1990, but not a complete system until a year after that.

The data base would have been very useful in developing detailed cost estimates for the Vancouver Island Highway, the largest of the current major projects. Without it, staff were forced to make their technical estimates using information from a limited number of sources. Further delay will also hinder the development of cost estimates for projects still in the planning stages.

Ministry Needs Organized "Corporate Memory"

The ministry does not have an organized way of making use of the experience gained on previous highway projects.

In each highway project a set of problems is encountered and solutions are found. The information resulting from this process is invaluable for the planning and building of future highway projects. Cost-related information is only part of what the ministry can learn from past projects. Information on design standards and what works best in British Columbia conditions are other valuable kinds of learning. For instance, the ministry's bridge specialists have found from experience that only certain kinds of bridge bearings and expansion joints can stand up to our climate.

Although such information is especially important for the ministry, its gathering and dissemination is made difficult by the nature and size of the highway system. Many parts of the highway system have service lives longer than the career of any ministry employee. What works and what does not may not be clear immediately. It may, for example, take 10 years to see how well a particular pavement mix stands up under particular road conditions. As well, the highway system is large. Consequently, the knowledge and experience that has been gained is held by many and not easily accessible to those who might make use of it.

Currently, historical information is held mainly in the memories of the ministry's experienced employees, although some is also available in drawings and files. The ministry can no longer rely on human memory. One reason is its loss of staff, and especially its loss of longtime employees through early retirement. The other reasons are the increases in the ministry's capital projects and in its use of contracted resources. Even if human memories could carry all the lessons of all these projects, more and more these memories will be in the private sector, and unavailable to the ministry.

These characteristics taken together mean that the ministry must learn systematically from experience, keeping large amounts of information, and organizing that information so that it can be found easily many years after a project is completed.

The ministry has involved many of its most seasoned specialists in its major projects, to take advantage of their knowledge and experience. However, recent history suggests the ministry cannot be sure it will always be able to retain enough long-service staff to supply this experience base. For this reason, we recommend that the ministry give priority to developing a "corporate memory" on all its capital projects, one that overcomes the limitations of relying on human memory.

The ministry is planning to review each large project on completion, bringing together the designers and builders involved to discuss and document the lessons learned. We support this as a useful step toward a broader corporate memory system.

Reporting to Government and the Legislative Assembly

The ministry is making progress on giving the government, the Legislative Assembly, and the public complete information on major projects, but more needs to be done.

The final decision-makers on the shape and direction of major projects are the government, the Legislative Assembly, and the public.

Commissioner MacKay was concerned that the Legislative Assembly and the public were not getting the information they needed: "The current method of reporting highway capital spending . . . has served to disguise the true cost of major projects" (MacKay, p. xi). "[I]n the funding of the Coquihalla Highway Project . . . the Legislature was avoided and misled by the documents presented to it . . . [and] the true costs were not represented in a forthright way" (MacKay, p. xii).

In the March 1989 Annual Report of the Auditor General, we reported on a study we had done called "Control of the Public Purse by the Legislative Assembly." We had several recommendations for improving accountability on major projects: "We believe additional information is essential to help the Legislative Assembly understand the extent of anticipated future expenditures at the time it approves each annual spending request. Major highway construction projects . . . should be segregated in separate sub-votes. . . . The descriptions should be reasonably precise. . . . A comparison of actual and budget expenditure over the life of each major project should also be provided" (p. 208).

The ministry has made several improvements in its reporting on major projects. It now reports to Treasury Board on each project's budgeted and actual costs, in total and for the year. However, we found that the presentation format makes it difficult to track changes to the project, and to compare information given in different reports. We believe this greatly weakens the value of these reports.

Changes have also been made in publicly available information sources. The government's Estimates now report the budget for the year for each major project. Unfortunately, it does not report the total project budget, so readers receive only a partial view of the cost. The ministry is revising its annual report to include a description of each major project, including its total budget (if available), but it still does not discuss the public need (e.g., reducing congestion, saving lives) the project is supposed to meet.

In summary, the ministry and government are doing better reporting on major projects, but no publicly available documents yet give the complete picture to the Legislative Assembly and the public.

Ordering What Is Wanted and Getting a Good Price

Improvements in Construction Contracts and in Contract Administration

Commissioner MacKay concluded that problems in the Coquihalla project were made worse by weaknesses in the ministry's construction contracts, and in the way it administered these contracts. His report recommended that "the ministry undertake a complete review of its contract documents for capital works, with the objective of developing a modern document . . . which is fair to government and contractor, appropriately shares risk between government and contractor, and which can be universally administered within the written terms of the contract" (MacKay, p. xix). It also recommended that the ministry develop training courses and a procedure manual to aid its personnel in administering contracts.

The ministry set up a task force to develop a new contract. The task force reviewed similar contracts in other jurisdictions and consulted with construction associations and others affected by the contract. It then produced a new contract, which is now coming into use. We found that the new contract shows several improvements over the old one. It has eliminated obsolete sections and wording, it has reflected recent judicial decisions, and it has clarified areas not detailed in the old contract, such as variations from expected quantities and the process for dispute resolution. Since the new contract has just been introduced, it is too early for us to judge its effectiveness in practice.

The ministry has also made some progress in developing procedure manuals and courses in contract administration.

Adding Strength to Contract Negotiation

The way the ministry negotiates contracts for professional services cannot ensure cost-effectiveness.

The ministry chooses by competitive bidding the contractors who build its roads. Buying professional engineering and consulting services this way is not normal practice in the ministry or elsewhere. The reasons against it are complex, and include professional associations' concerns that hiring professionals on a lowest-bid basis may compromise standards.

These services typically make up 10 to 15% of the total cost of a project. Planning, design and similar engineering and consulting services for major projects are costly. Most of this work on major projects is being done by the private sector. In addition, most project supervision on projects not yet at the construction stage is going to be done by private sector engineering firms also. The cost of project supervision is similar in magnitude to the cost of design and planning.

When buying engineering and consulting services, the ministry invites firms to submit their proposals. The ministry selects the firm with the best technical proposal and then negotiates the price.

The price negotiated is usually derived from an estimate of the number of hours required, multiplied by the wage rates paid, and further multiplied by a markup to cover overhead and profit. A shared information system would help negotiators with all three cost elements. To negotiate hours, the ministry must know the actual labor efficiency in engineering offices, including the effect of productivity aids such as computer-aided design and drafting. Actual wage rates are equally important information. The overhead and profit multiplier varies with the state of the market for engineering services and the success of negotiation. Negotiators must know what multiplier the ministry is currently paying on other contracts.

At present, ministry staff conducting contract negotiations must rely on their own knowledge of current price factors. The ministry has not developed a shared information system to support its negotiators. We recommend that since negotiation of consulting contracts is now a central part of its business, the ministry should develop an information system to give its staff the information they need to negotiate effectively. It would be equally valuable to share this information with other public sector buyers of engineering services, such as British Columbia Transit and the British Columbia Hydro and Power Authority.

Learning to Examine the Market

The ministry does not have an organized process for assessing the markets where it buys services for major projects. It increasingly relies on contracted professional services, as well as contracted construction services, for its major projects. Its projections of the costs of announced major projects suggest this trend will continue.

As a result, the ministry is now interdependent with the construction and engineering industries. For the industries, the ministry is a major buyer of services. For the ministry, the industries supply essential services which it can no longer provide internally in the quantity it needs.

The increase in ministry demand for engineering services coincides with an increase for the same services by other sectors of the economy. There are also signs that a similar trend — increased ministry demand in a buoyant market — is occurring in the construction industry.

Our concern is that at present the ministry has no specialist staff or organization to collect information on the construction and consulting markets. If it is unaware of market trends, the ministry may end up buying services when prices are high. In some situations this may be desirable, but the government can only judge the cost-effectiveness of such a choice if it first knows the extra cost of proceeding with the project at that time.

With such a specialist group, the ministry could investigate such important questions as:

- Is the ministry consistently choosing the right size of contracts for cost-effectiveness? (For example, would larger construction contracts reduce costs by allowing contractors to use larger machines?)
- Are special policies needed to encourage a competitive market in the services for which the ministry is the major buyer, such as preliminary highway design?
- Should the ministry stage its projects to avoid buying services when demand and price are highest?

- Is the ministry's own demand for engineering services inflating the prices it pays for these services?

We recommend that the ministry develop an organized method of examining market conditions to aid it in developing policies for getting needed services at the best possible price, while nurturing the kind of industry it needs for its own long-term success.

Getting What Is Ordered

New Skills Needed for Project Control

The ministry does not have enough specialists in project information services to advise senior management.

Project management is not a different way of building roads; it is a different way of managing building projects. Engineering and construction supervision are essentially unchanged from the ministry's old way of doing business. The big change is the emphasis on organized responsibility, and information flows to support that organization. Project information is now an essential part of the operation, not after-the-fact paperwork. The project information team carefully monitors and reports progress compared to the original scope. This information allows the project director to manage the project. Equally important, the monitoring ensures the right information is available to senior management and the government.

In this sense, project information services are no different from engineering and construction supervision. The important difference is that the ministry still has a core of experts in these latter areas, able to give senior management an independent assessment of consultants' work. However, the ministry does not have staff who are specialists in project information. Such experts are needed to advise senior management and ensure the quality of the work being done under contract.

We recommend that the ministry develop a core group of experts in project information services, especially in scheduling and cost estimating. The Commissioner's report emphasized the importance of such a group:

> A Project Control group must exist either in the project or as an independent group within the ministry. **The group must report to a senior management level. . . .[T]he primary purpose of the group shall be to forecast the position of a project such that corrective actions can be taken.** [our emphasis] This group would also be responsible for ensuring the project reports and conducts its affairs within the approved policies and procedures (MacKay, p. 80).

Ministry Needs to Ensure Quality of Contracted Services

We believe the ministry does not have enough senior technical advisers to support management in its scrutiny of major projects.

Like any prudent purchaser, senior management of the ministry has a duty to make sure that the project services it buys are of the quality it specified. It is too late to do this only when the highway is completed; quality assurance must be done at all important stages of the project. Quality assurance is not a new process in highway construction. However, one result of doing more business by contract is that the process needs to be more formal. Less reliance can be placed on knowing the capabilities of the staff doing the work, since they are no longer under the ministry's direct supervision. Quality assurance must cover a wider range of concerns, from seeing that the best design alternatives have been chosen, to seeing that the ministry is protected from fraud. To meet these needs, the ministry requires organized review processes and staff with enough experience to carry out the processes.

The review system is best developed in highway and bridge design. Just as when the design work was done in-house, all design drawings are reviewed by ministry staff and eventually signed off as accepted for construction. This review is not carried out solely to find errors; that is the responsibility of the consultant. Instead, the ministry reviewers look to see that the decisions made were appropriate, consistent with ministry standards, and consistent with other design work on the project.

The best payoff from review comes from finding, early on, parts of the project where alternatives can make a useful difference to total cost. This kind of analysis was done on the Cassiar Connector in choosing the best mix of tunnels and overpasses. Similar considerations were behind the use of large culvert structures to replace some bridges on the Okanagan Connector. These questions need to be considered early on in the design process. If reviewed only when design is complete, the potential saving from redesign may be less than the cost of the wasted design work.

The ministry has most of its experienced specialists in its traditional areas of responsibility — highway design, bridge design, and geotechnical engineering — rather than in highway planning, project management, and project information services. Even here there may be problems of recruiting and retention. Market demand for engineers is increasing. Ministry officials said they believe private sector salaries are above what the ministry could offer in some specialties. This may be one reason why the ministry is experiencing difficulty in filling some positions. At the end of our audit work, the ministry was having problems filling vacancies at headquarters for planning engineers and three other specialties.

We are concerned that, because of a shortage of specialist staff, the ministry will not be able to conduct quality reviews early enough in the design process to ensure that effective changes can be made. For example, senior technical staff of the ministry reviewed the detail designs for the Cassiar Connector when the designs were completed. They had much less involvement with the designs at earlier stages. Of course, the company managing the project has its own specialists to oversee and review the work of the designers. At some stage, however, senior management of the ministry must be able to reassure itself directly that all contracted work has been done to its satisfaction. This means that it needs adequate numbers of experienced technical advisers on staff.

Regular Reporting on Project Progress

Project reports need improvements in timeliness and content.

Reports on the progress of major projects allow senior management in the ministry to determine whether the project is proceeding as expected, while leaving the project team free to manage efficiently. To be effective, these reports must be regular and timely, and contain the right information at the right level of detail.

We were concerned to find that, at busy times, the Okanagan Connector team was not able to submit regular written reports. The engineering firm hired by the ministry to conduct a continuing audit of the project had similar concerns.

The format and content of the reports from the various projects are still evolving. We concluded that the present formats are adequate in breadth and detail of coverage, but lack continuity of information. Reports focus on events of the month, but do not carry forward from previous month's events. This makes it difficult to judge the significance of the current information. For example, Okanagan Connector reports explained scope changes as they happened, but did not consistently report the total effect of these changes. Similarly, Cassiar Connector reports give information on each month's changes in cost estimates, but are less clear on the accumulated effect of these changes.

Looking Ahead

Ministry spending on major projects could increase dramatically in the next few years, if announced projects are constructed as planned. This will be only part of the ministry's construction activity. It also makes a considerable investment in other construction projects. In fact, in 1989/90, the budget for these smaller capital projects — $225 million — was bigger than the budget for major projects — $187 million. The scale of the ministry's construction plans can only be appreciated when the costs of these smaller works are added to those of major projects.

Our audits are snapshots: they look at conditions in an organization at a point in time. In our reports we try to bring out what we found that will continue to be important in the future.

Normally, an organization which has undergone as much change as this ministry needs a period of stability in which to digest these changes before expanding its activity. Instead, the projection in this case is for spending to continue to increase dramatically in the next few years. Additionally, although the ministry has not yet completed one major project using its new project management model, with either in-house or contracted resources, it is already having to choose a management system for the Vancouver Island Highway, a project with an announced cost several times that of the Okanagan Connector and the Cassiar Connector combined.

We have acknowledged the progress made by the ministry in organizing and managing large projects since the report of Commissioner MacKay was issued. However, we are concerned that a dramatic increase in major construction activity would emphasize the operational deficiencies that remain and that the consequences of these lingering shortcomings could be significant. The wave of work likely to descend on the ministry means that it must act quickly to rectify the following areas not yet addressed:

- A cost estimating system is not yet in place.
- A new construction contract has just been completed, and contract administration courses and manual are still being implemented.
- The ministry has no organized system of tracking the market for construction services and engineering and project management services, and no system for making sure that it negotiates favorable contracts for consulting services.
- There are gaps in the ministry's core of specialist advisers, especially on project information services.

Ministry of Transportation and Highways: Development Approvals

A review of the approval process for subdivision of land in rural areas and for access permits to provincial highways

Audit Purpose

We conducted this audit to assess whether the design of the land development approval process in the Ministry of Transportation and Highways ensures uniform decisions which comply with all statutory requirements. We also assessed whether the approval service to applicants is timely and efficient.

We carried out our audit between September 1989 and January 1990. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We concluded that the process used by the ministry for development approval needs strengthening to give more assurance that decisions are uniform and that they comply with all statutory requirements. We think the process should include, at a minimum, an accessible and independent appeal mechanism. For complex applications, we think the process should be improved to allow for more checking to occur before decisions are made.

As well, we found a wide variation in timeliness of service, and believe the ministry should improve its efficiency.

Independent of our audit, the ministry had recognized the need to improve its development approval process, and towards the end of 1989 was starting to take steps to do so.

Land Development Approval in British Columbia

Land development is one of the largest industries in British Columbia. It is regulated under several acts, which are administered by a variety of provincial, regional and municipal agencies. The general intent of the regulation is: to control land use; to protect the public's interest in the existing investment, such as for roads and sewers; to protect the rights of existing property owners adjacent to the new development; and to assure purchasers of developed properties that reasonable standards are met in the construction of roads, utilities, and buildings.

The main activities involved in land development are zoning, subdividing, and construction.

Zoning

Zoning is a term for the classification of land according to permitted uses. The *Canadian Constitution Act 1982* gives each province the power to regulate property rights in its territory. The provincial legislature has delegated its power to various bodies, including ministries, municipalities, regional districts, and administrative tribunals such as the Agricultural Land Commission.

There are 5.7 million hectares (14.1 million acres) of privately owned land in British Columbia, 1.1 million of which are regulated by municipalities. The remaining land is located in rural areas and, for zoning, is mostly under the jurisdiction of regional districts.

Because a change in zoning can greatly affect the volume of vehicle traffic in an area, the law requires that the Ministry of Transportation and Highways approve the zoning of land located within 800 m of any intersection of a major provincial highway. This applies even to land within a municipality.

Subdivisions

The term subdivision usually describes the division of an existing parcel of land into several smaller lots, each of which is registered with a Land Titles Office as a separate parcel. In practice, the term also applies to the combining of small parcels into a larger one.

In British Columbia, subdividing land is regulated mainly by the *Land Titles Act*, *Municipal Act*, and *Local Services Act*. Under the *Land Titles Act*, an official called an Approving Officer must confirm that the subdivision regulations are met. Municipal councils appoint their own Approving Officers for subdivisions within municipal boundaries. In most rural areas of the province, Approving Officers are employees of the Ministry of Transportation and Highways, appointed by Order-in-Council.

Construction

Construction involves several items—installing roads and utilities, providing the rights-of-way for these and other purposes, and creating access from the subdivision to the existing highway system. The main acts applying to these activities are the *Highways Act*, *Municipal Act*, *Land Titles Act*, and *Local Services Act*. Authority to issue permits or approvals is delegated between the ministry and the municipalities. Issuing building permits for the construction of dwelling, institutional, commercial and industrial structures is, however, the responsibility of municipalities and regional districts, and does not involve the ministry.

The Role of the Ministry of Transportation and Highways

The ministry is responsible for issuing permits and approvals for most land development in British Columbia. Part of this responsibility relates to highways and has several purposes:

- to ensure safe access to and from highways;

- to ensure that the impact of land development on highway traffic is controlled; and
- to ensure that roads built by developers within rural subdivisions meet acceptable engineering standards, since the ministry will be responsible for the roads once built.

The other major land development responsibility of the ministry is to approve subdivisions in rural areas. In this it is the lead agency. It deals with road regulations itself and refers to many other agencies for advice on public health, environmental protection, utilities, schools, and such.

In the 1988/89 fiscal year, the ministry issued 4,000 access permits, inherited 70 km of new roads built in subdivisions, approved 1,200 zoning bylaws, and approved 800 subdivisions creating 3,300 lots. It has staff in each of its 6 regional and 28 district offices dedicated to development approval work. Headquarters' staff do policy development.

Ensuring Uniform Compliance with Regulations Affecting Roads

We found that the approval process for most road-related applications results in decisions that are suitably uniform and in compliance with regulations. This occurs because these applications are of a simple nature and the decisions do not require a significant exercise of professional judgment. However, because judgment is required in most cases, we believe that the process needs more assurance that the judgments are proper. Particularly for road-related approvals of a more complex nature, the current process does not ensure that suitably qualified staff are always involved in making the decisions. If a mistake is to be corrected after an approval has been granted, the ministry must pay the full cost. If the problem had been recognized before the approval was granted, the developer would either have to change his plans or have to bear some or all of the cost of correction.

Judgments for road-related approvals are mainly of an engineering nature. Examples of these include:

- confirming that access from the subdivision to existing highways will be safe;
- ensuring that existing roadside features such as drainage and sidewalks will not be damaged;
- ensuring that the proposed plan will not disrupt traffic flow and reduce its safety;
- ensuring that roads, lanes and emergency vehicle access will be adequate;
- determining the possible extent of threat by natural hazards such as flooding, erosion, landslides or avalanches; and
- confirming that public roads built in subdivisions have been constructed, surfaced and drained to specified standards.

These approvals require engineering knowledge, experience in road construction and traffic flow analysis, and an understanding of the effect of natural hazards.

Developers submit applications to the approval staff in district offices. These staff are engineering technicians with varying amounts of experience. They perform the necessary inspections, analyses, and cross-checking and submit a file with the application and a recommendation for approval or disapproval to the Approving Officer in their regional office. The Approving Officer makes the final decision.

Most road-related approvals are straightforward. Little judgment is needed to determine if the application meets the standards in the regulations. Approving staff are suitably qualified to make uniform decisions that comply with regulations. Nevertheless, in a regulatory process affecting the livelihood of the applicants, we believe the process should provide very high certainty of correct decision-making. We believe a simple, independent appeal mechanism is needed (as we describe below).

With more complex applications, the decisions require a challenging exercise of judgment. Written reference material is key to ensuring the uniformity of decisions. We found, however, that the approval system had only limited written interpretive material to guide staff in making judgments. Lack of a long-term plan for the development of highways in the district was a significant problem. The ministry recognizes these problems and is rewriting its policy and procedure manual for development approval. It also expects to have a long-term transportation plan approved by the spring of 1990.

Lacking written reference material, the approval technicians can turn to the District Highways Manager for advice. The District Highways Managers typically have had significant experience with the ministry, although only 4 of 28 are professional engineers. District approval staff or the Approving Officer can also ask for help from regional engineering staff who are experts in, for instance, traffic engineering, road design, and road construction. Requests for advice, however, are not part of a mandatory procedure. A developer's plan can be reviewed and the finished work accepted by the Approving Officer with little or no input from expert engineers. Once an approval is granted, the ministry and not the developer must pay the cost to fix any problems.

The ministry does not keep records of errors made in granting approvals. Nevertheless, we were able to identify a few cases of problems with developments which only showed up after the approval was given. For example, there is now a concern that the access roads for a certain shopping center being built next to a highway are not adequate for the expected increase in the volume of traffic. Rectifying the problem, it is estimated, may cost the ministry over $100,000. Had it been found before the plan had been approved by the ministry, the developer would share at least part of the cost of fixing it.

The consequences of errors in approval decisions usually do not become apparent for some time. When the ministry is repairing or upgrading a road, it does not systematically test and report whether the problem is related to an approval decision. Thus, neither we nor ministry management knows the full cost of conducting the approval process in the current manner.

We believe the ministry should restructure the organization of the development approval process so that a firm and formal relationship is established between approval staff and the road and traffic experts. Especially with complex developments, the technical experts should be involved to ensure that the ministry's expectations for safe and efficient traffic are met.

We also noted that those involved in granting approvals are not usually kept informed of the effect of their decisions. Therefore, lessons are not being learned from the success or failure of projects that have been reviewed. Monitoring the effects of significant projects on the nearby traffic should become a routine procedure within the ministry. This would provide useful information about problems — information that could be kept on file to help all approving staff make more uniform decisions.

Uniform Compliance with Regulations for Subdivisions

In our opinion, the ministry should strengthen its approval process for subdivisions so that it can be more certain that decisions are made uniformly and in compliance with regulations.

As with the process for other approvals, a person wishing to have a subdivision approved submits his plans to the approving staff in a district highways office. Once staff do their work, they pass the file and recommendation to the Approving Officer in the regional office for decision.

Approval of subdivision applications involves a broad range of regulatory reviews and considerable exercise of judgment and, in some cases, discretion. For example, the governing acts require an Approving Officer, before approving a subdivision, to ensure that:

- concerns of those individuals and groups affected by the subdivision have been heard;
- the proposed subdivision will comply with regulations on size and shape of lots and adequacy of building area;
- the plan includes necessary and reasonable access to all new parcels and to land lying beyond or around the subdivided land;
- the proposed development will not adversely affect the natural environment to an unacceptable degree;

- the cost to the government resulting from the development of providing public utilities or other services will not be excessive;
- the subdivision will be suited to the use for which it is intended;
- the subdivision meets the requirements of other government agencies, such as those concerned with sewer and water; and
- the plan is in a form suitable for deposit with the Registrar of Land Titles.

These judgments are so wide ranging that the Ministry of Transportation and Highways does not act on its own. Rather, it performs part of the evaluation itself and contacts other expert agencies for other parts. The Ministry of Health, for example, advises on sewage regulations, and the Ministry of Environment on environmental impact. Many of the assessments are not black or white, and professional judgment is necessary. Also some requirements under the regulations may be waived in certain circumstances. An example is where the regulation calls for providing a public beach access every 200 m. This regulation may be waived if it could lead to an unsafe situation, such as a path reaching the top of a cliff. The discretion involved in such situations could have significant cost implications for the developer.

The technicians in the ministry who perform part of the detailed examination of the subdivision application have varying levels of experience to bring to this work. Opinions on non-road-related parts of the application are offered by other agencies, such as the public health department for septic systems. Ultimately it is the Regional Approving Officer who must gather and weigh all these opinions and make a final decision. These decisions are not subject to any regular management review. Thus, for the most part, the ministry's approval process relies entirely on its Approving Officers to ensure that uniform decisions are made that conform to the regulations. The only other controls in the system are complaints or litigation by applicants, and the possibility that the Land Titles Office might reject a subdivision plan if it spots an irregularity.

We believe that the ministry's approval process for subdivisions, although it depends so heavily on the Approving Officer, is suitable to produce decisions that conform with regulations in most cases. The Approving Officers are appointed only after careful consideration of their competence, and the act that defines their position gives them a quasi-judicial role. Thus, although they are employees of the ministry, they can make their judgments independently. They are also required to provide reasons when they disapprove an application. Nevertheless, as we discussed earlier, we believe an appeal process is necessary to give the applicants sufficient assurance of proper decision-making.

On the uniformity of decisions, we think the use of a single Approving Officer per region reasonably assures that uniform decisions are being made within the region. However, there is no formal process of confirming uniformity across regions. As part of the audit, we interviewed representatives of two retail chains that develop properties throughout the province. The opinion of these representatives was that decisions from region to region were similar. They also believed, however, as did ministry staff, that uniformity between Approving Officers in the ministry and those in municipalities was sometimes lacking. We discuss ministry coordination with municipalities below.

Although the approval process works adequately in most cases, it does not do so in all. This is shown by complaints and, in some cases, litigation as a result of decisions.

We examined the history of litigation against the Crown related to the approval process, and found that the Crown has been, on occasion, successfully sued for damages. Where the Crown has settled a multiple claim by a single payment, it is difficult to pinpoint the exact amount attributable to the Approving Officer's decision. However, we were able to identify three cases, directly related to the approvals process, where the Crown had to pay over $400,000 in total. Although only a few cases will reach court proceedings each year, there is always the potential for large claims.

Because the Approving Officer has a quasi-judicial role, it is important that the ministry respect the independence needed in the approval process. It is equally important, however, that the ministry strive to maintain service quality and reduce claims against the Crown. We believe that, as a quality assurance measure, the ministry should set up internal procedures to regularly review samples of subdivision approval decisions. To help preserve the independence of the Approving Officers, this would best be done as a peer review. There should also be more management attention given to subdivision approval — a reporting or an audit mechanism might be appropriate.

The law, in almost every aspect of the subdivision approval, gives Approving Officers latitude in their decisions within legal bounds of the statutory requirements. For example, subdividers of waterfront properties must dedicate land for free public access to beaches. Nevertheless, as noted before, legislation also permits the Approving Officers to exempt the subdivider where access is not considered necessary or safe. This discretionary power places a burden of responsibility for fairness on the officers. To help them make such decisions, we think management, consulting with the Approving Officers, should develop more - specific, written policy guidance. The ministry should also keep a file of precedents which all the Approving Officers could consult when making judgments.

Appeal Process

We believe that the current appeal process for dissatisfied subdivision applicants should be improved. The acts provide only for a formal appeal to the Supreme Court of British Columbia. This is an expensive and time-consuming process of little usefulness to most applicants. The ministry has an informal appeal process involving the management hierarchy of the ministry. The availability of this process is not consistently advertised to applicants, nor are the bases of decisions made public. Thus, we feel that this process does not give the public confidence that all applicants have an equal likelihood of fair treatment. We also believe that such a process threatens the independence of the Approving Officers who are employees of the ministry.

We recommend that the ministry consider setting up an accessible and independent appeal mechanism similar to the board of variance in municipalities. This would benefit dissatisfied applicants, give the general public more confidence in the independence of the approval process overall, and provide the ministry with a set of precedents which would help ensure more uniform decision-making in the future.

Timely and Efficient Service to Applicants

We found that the ministry fails to evaluate the timeliness of its service. Although it strives to provide prompt service, its performance is erratic. We also believe there are a number of ways the ministry can improve the efficiency of its service. Toward the end of 1989, the ministry had started taking action on several of these matters.

To assess the timeliness of ministry service to applicants, we looked first for standards or guidelines used by the ministry in responding to applications. Of the 26 types of approval work, timeliness standards exist for only some; and even these fail to distinguish between simple and complex applications of a given type. Thus, the ministry does not have a suitable base for evaluating its performance in providing timely service.

Even without standards, we would like to have seen a systematic process for measuring, reporting, and reviewing the actual service times received by applicants. There was not one. Staff did, however, try to provide timely service. Their ability to do so varied with the cycles of development activity, and the availability of staff. Since relatively few staff deal with approvals in each district office, vacations, lengthy illnesses, or vacancies can significantly affect the amount of work produced by an office. Overall, the timeliness of the service provided was inconsistent. However, the few large developers we interviewed in the audit said that ministry subdivision approval was generally more prompt than that of municipalities.

Some members of the development public, we found, believe that the ministry gives precedence to large developers in processing applications. We determined that this perception has arisen primarily because the large developers are very familiar with ministry requirements and procedures. As a result, their applications are relatively easy to review. The ministry has recognized that it is not providing enough help to small and one-time developers. It recently made a new series of information brochures available to the public to help them understand the approval procedures better. Soon a publication of engineering standards required by the ministry will also be available to applicants.

We found that the ministry uses the same process to deal with all types and sizes of applications. Approval staff in district offices receive and review all applications. To keep the Approving Officer informed, or to consult with engineering staff, documents are sent to the regional office. This results in duplicate files in both offices, and considerable back and forth communication between regional staff, district staff, and the applicant.

We noted that applications, in general, represent three sizes of development projects:

1. a small number of very large projects which, because of their provincial or even national importance, may require attention at the senior level of management in a number of ministries;
2. a moderate number of large projects which require evaluation by regionally based experts; and
3. a very large number of small projects.

For the high-volume routine projects, the transfer of documents between the two offices is inefficient and a cause of delays. As our audit was ending, the ministry was working on delegating authority to approve projects to district office staff. We support this initiative for routine projects, but believe more complex projects should be processed at the regional or head office level. This would remove the disrupting effect of very large projects from the regular workload of the district office, and locate the processing where the needed expertise is available. We recommend, therefore, that the ministry sort the applications and process them at a level of the organization appropriate to their complexity.

In the discussion above on timeliness, we observed that the ministry's work is simpler when the ministry is dealing with a well-informed applicant. We therefore urge the ministry to continue its current efforts of better informing applicants, as this will pay back in improved efficiency and faster service to clients.

Effective Coordination with Other Agencies

Other government agencies are often involved in the approval process. Timely and efficient service to applicants therefore depends not only on the efficiency of the ministry, but also on the effective coordination between the ministry and other agencies.

We found that the ministry has acceptable systems to coordinate its interaction with other agencies on matters under its control, such as referral of subdivision applications.

The ministry sometimes has problems getting timely responses, but there are well-established procedures for dealing with such problems.

Where another agency is supposed to coordinate with the ministry, additional problems arise. These occur mainly with municipalities and regionals districts. For example, a municipality may issue a building permit before ensuring that the developer has an access permit from the ministry. If the developer starts building, the ministry is under unwarranted pressure to issue the access permit regardless of its consequences. In one case we studied, a developer built a factory on the assurances from the municipality that it would take care of any problems with the ministry. After the factory was built, the ministry Approving Officer refused a permit for the planned access because a hill made it dangerous. In this case, the ministry acted reasonably and with due care, yet it is still going to have to pay part of the cost of making a safe access.

At this time, each regional and district office of the ministry is contending with similar problems in its relationship with local governments. We believe the process would be more efficient if guidelines were agreed to at the provincial level by all the agencies involved, and then sent to field. From the perspective of the developers, a system with either fewer agencies involved or better coordination among agencies would be welcome.

Looking Ahead

The ministry has formulated many important initiatives which are designed to improve the approval process and to increase the level of competence of staff involved in it. Although many of these initiatives are not yet implemented, we believe them to be positive steps. The legislature should expect to find in the next few years a substantial improvement in the process for approving subdivisions and issuing permits required for land development projects.

Although we did not study the issue in detail as part of this audit, it was apparent to us that approving subdivisions is out of character with the main business of the Ministry of Transportation and Highways. We are concerned, as a result, that the development approvals may not continually receive as much management and policy attention as befits such an economically significant activity. We suggest that the legislature review whether the Ministry of Transportation and Highways should continue to act as the lead agency for approving subdivisions in rural areas.

Ministry of Transportation and Highways: Gravel Management

Managing the supply of gravel for highway construction and maintenance

Audit Purpose

We undertook this audit to assess the management of the supply of gravel for the provincial highways system. We considered whether the planning processes of the Ministry of Transportation and Highways are suitable to ensure gravel is available at least cost to satisfy highways construction and maintenance needs in the short and long term, and whether the ministry manages its gravel pits efficiently by maximizing the gravel extracted. We also examined the gravel accounting processes introduced with the privatization of road and bridge maintenance to ensure that they provide adequate controls over gravel use.

We performed the audit between June and September 1989. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

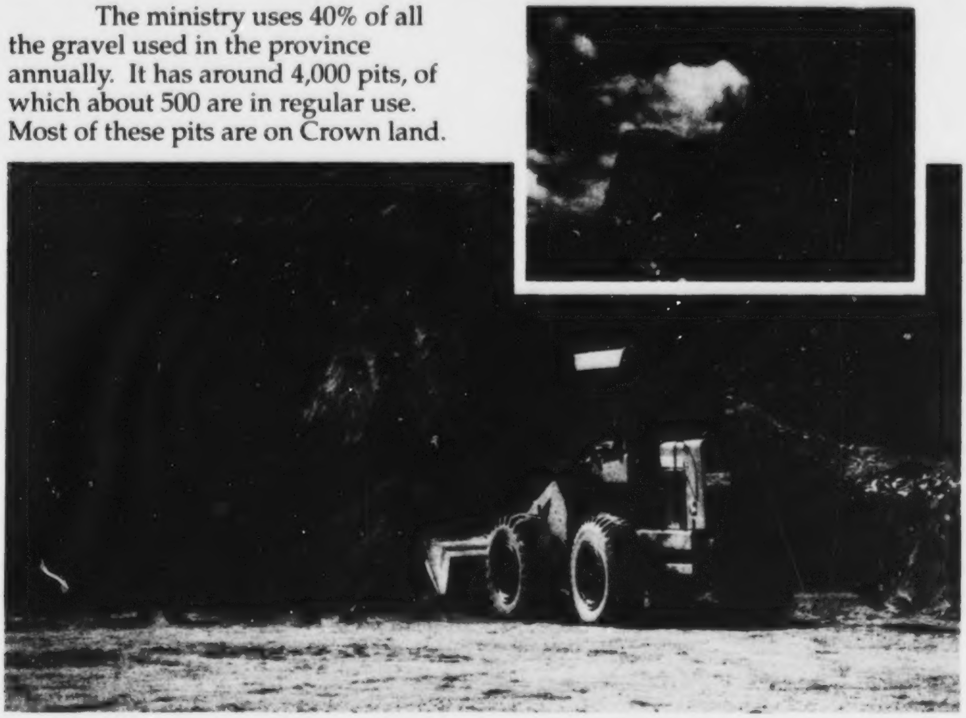
In our opinion, the ministry must improve its planning processes to ensure that gravel is available at least cost to meet its purposes, particularly in the long term. The current process focuses on short-term needs, and the information available for decision-making is limited.

As a result of the privatization of road and bridge maintenance, the operation of most active gravel pits was transferred to maintenance contractors under license agreements. We believe the ministry has, in concept, suitable processes to manage its individual gravel pits efficiently, and to account properly for gravel extracted. However, some of these processes are new and not yet in use, and some of the policies and technical information are incomplete.

The Ministry's Use of Gravel

Gravel is found throughout the province. Road building uses gravel in two forms: naturally occurring and processed. Processed gravel is naturally occurring gravel that has been crushed and sorted to a uniform size. In the three years from 1985 to 1988, the ministry paid an average of $58 million per year for natural and processed gravel. When the hauling and packing costs involved in building a new road are added to those of mining and processing, gravel accounts for 20 to 30% of the cost of the finished road. Consequently, the ministry spends from $100 to $150 million per year for gravel depending on the size of its building program. Good management of this large cost item is important.

The ministry uses 40% of all the gravel used in the province annually. It has around 4,000 pits, of which about 500 are in regular use. Most of these pits are on Crown land.



The ministry supplies about 85% of its gravel needs from these pits; the rest it buys from private sector sources. The ministry believes it should continue to obtain most of the gravel it will need from its own pits.

As part of its privatization of road and bridge maintenance in the 1988/89 fiscal year, the ministry licensed 2,000 of its pits, including almost all of the pits in regular use, to the road and bridge maintenance contractors. The contractors use these pits as their main source of gravel for road maintenance. Although the contractors manage these pits, the ministry retains ownership and still has access to the pits for its road construction needs.

In the past, most ministry staff considered gravel to be readily available in unlimited quantities and therefore not needing long-term management. This attitude is changing, however. As readily accessible sources are used up, the cost of gravel is increasing. Large areas of scarcity exist, such as in the Peace River district in the northeast of the province, and more localized shortages are arising in other areas with increasing frequency. Because haulage distance affects the total cost of the gravel used in road building, obtaining needed volumes and grades of gravel in locations close to its use is critical to achieving good value for money.

Other factors of growing importance are affecting gravel supply. These include competing land use demands, environmental concerns, and the private sector gravel industry. Many of these issues became so significant in Ontario that the province issued a policy statement on Mineral Aggregate Resources in 1986, setting out specific policies to guide management of the gravel resource. No equivalent policy exists in British Columbia, but the ministry recognizes that a long-term approach to gravel management is needed.

Resource Planning

For the ministry to acquire and use gravel economically, it needs a planning process that identifies what supplies it has, what its expected needs are, and how it can best match those needs with existing or new resources. Expert opinion in the ministry is that planning should extend at least 10 years into the future, with 30 years not being unreasonable.

The ministry does not have reliable records of the quantity and quality of gravel remaining in its current gravel pits. It is updating these records, but at its current rate of progress will take many years to get caught up. The ministry is also doing some prospecting for future sources, but the range of this activity is limited. Overall, the ministry does not have suitable information about its current or future supplies to be able to manage the resource economically.

At present, the ministry identifies its gravel needs for major new roads at the time the roads are announced for construction. This provides an outlook of typically three to six years. Gravel needed for maintenance and smaller construction projects is identified only for the next year or two. The ministry does not yet have a long-term plan that identifies which new roads will be built, or which existing roads will be reconstructed. Without such a plan, the ministry cannot identify its needs for gravel far enough into the future to manage the resource economically.

The ministry has a formal system for managing processed gravel for maintenance purposes. This involves a one- to three-year planning horizon. However, maintenance is only one part of the ministry's business. Road building often competes for the same gravel sources that are used for road maintenance. Considering all competing demands, in both the long and short terms, we found the ministry's processes of matching supply and demand to be inadequate. Without good quality information and convenient computer models, there is little more the ministry can do. The result is that allocation decisions are made which do not consider all possible demands, sources of supply, and costs. Good economy in the management of gravel cannot be assured with the current methods.

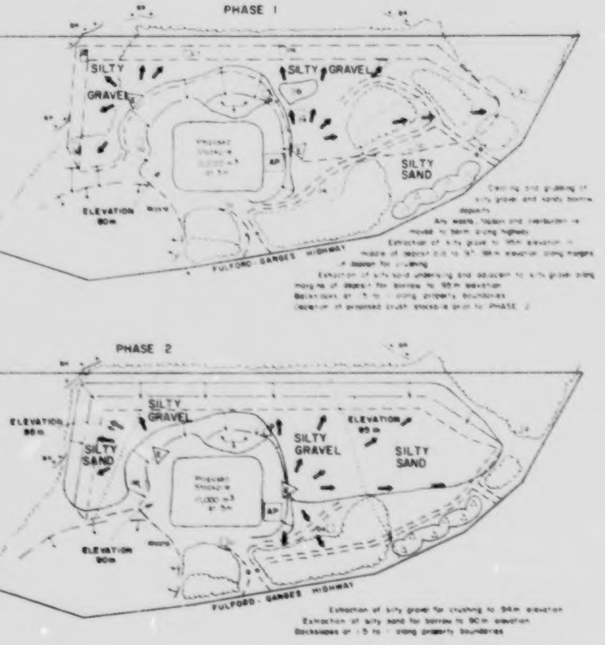
The ministry recognizes the limitations of its current gravel planning, and has recently started to develop a new computer-based system as one part of the solution to its problems. While we support this initiative, we are concerned that the ministry may be underestimating the extent and duration of the effort required to make significant improvements in its gravel planning.

Operating Gravel Pits

To achieve value for money, each gravel pit should be developed to ensure gravel extraction is efficient. To do this, the ministry must know the gravel content of the pit, and plan how it should be mined. Without this information, costly misuses such as high-grading and overburdening may occur.

High-grading results when high quality materials are removed first, leaving unusable lower-quality materials. Mixing the low and high quality materials eliminates the residue of unusable material, and gives the ministry better value from the pit as a whole. Overburdening, which means extracting and stockpiling materials in a way that prevents access to the remaining gravel, may also reduce the efficiency of a pit. By eliminating both of these problems, the ministry could reduce road-related costs.

The ministry uses "pit development plans" to document both pit contents and mining plans, as well as to control the activity of the maintenance contractors in licensed pits. These plans, however, are up-to-date (under five years old) for only about 20% of the ministry's active pits. The ministry recognizes the value of these plans and the need for correcting the present shortage. We believe a strategy is required for preparing plans where they would be most beneficial.


PHASE 1
SILTY
GRAVEL
SILTY GRAVEL
SILTY SAND
ELEVATION 90m
FULFORD-GANGES HIGHWAY
PHASE 2
SILTY GRAVEL
ELEVATION 90m
SILTY SAND
SILTY GRAVEL
ELEVATION 95m
SILTY SAND
ELEVATION 90m
FULFORD-GANGES HIGHWAY

Accounting for Gravel

As previously indicated, about 2,000 of the ministry's pits and almost all of the active ones are operated by maintenance contractors under the terms of license agreements. With day-to-day management of the pits in the hands of second parties, the ministry must have a way of ensuring that the contractors manage the pits with due regard for value for money.

The license agreements make the contractors responsible for providing pit security, following a pit development plan (if there is one), using the gravel only for maintaining provincial highways, reporting usage, and paying for usage. The license does not grant the maintenance contractors exclusive possession of the pit; both the ministry and its road-building contractors can also obtain access. However, maintenance contractors are responsible for reporting all materials taken from the pit.

We found a number of problems with ensuring that the ministry is paid for all gravel extracted from pits. An agreed opening inventory position has not been achieved in all cases. Inconsistent measurement practices are being used throughout the province. Delays by maintenance contractors in reporting usage are widespread. All of these factors may lead to a loss of revenue to the ministry.

At the time of our audit, the ministry was in its first year of dealing with the maintenance contractors, and many of the problems are attributable to start-up difficulties. The ministry is addressing these issues with the maintenance contractors, but corrective action had not occurred as of the completion of our audit.

We had one other concern with the ministry's relationship with the maintenance contractors. When the contractors need gravel for road maintenance, they can use the ministry pits at prices detailed in their license agreements or they can buy from a private source. Prices in the license agreements for gravel from ministry pits are uniform across most of the province. They do not reflect the actual cost of procuring gravel in a specific area. Since that cost can be quite high in areas where gravel is scarce, such as the Peace River district, this means that in some areas the uniform ministry price provides the contractor with gravel at prices well below cost. In areas where the license agreement price is high in relation to actual extraction costs, it encourages the contractor to buy from other sources. To encourage rational resource allocation choices, and to provide a more accurate project costing, we recommend that future license agreements contain prices that more accurately reflect costs in their local areas.

Environmental Issues

Opening, operating, and closing a gravel pit give rise to environmental issues. Visual impact, production noise and dust, physical damage, and reclamation must all be addressed. There can also be specific issues, such as those for water, fishing and wildlife, and for archaeological and native concerns. Many of these involve other ministries or the federal government and can take time to resolve. The ministry wants the lowest-cost gravel for its road maintenance and construction, but will use more expensive sources rather than delay construction if an environmental concern over the access to the optimum source isunresolved. Thus, the ministry's planning must identify environmental issues early enough to get them resolved in a timely manner.

The ministry is increasingly aware of environmental issues related to gravel use, although it does not have formal policies in this area. Pit development plans address many of these issues although, as already explained, such plans do not exist for most pits. However, with the growing importance of environmental protection, we believe the ministry should begin to deal with the issues in a more structured way.

Reclamation is the process by which pits are returned to their natural state. It is an important part of the pit life cycle, and should be included within a pit development plan. The ministry has many exhausted pits that should be reclaimed. It has recently been giving priority to reclaiming pits visible from the roadside. We believe it should review its reclamation planning process and ensure that all pits receive suitable treatment.

Once pits are depleted or are no longer needed, government policy requires that the ministry return them to the Ministry of Crown Lands. We found that such pits are not returned in a systematic way to Crown Lands. The ministry has many old pits it no longer needs, but its inventory records are so poor that it has difficulty identifying them. We believe the ministry should address this backlog, and should institute a formal process to return pits as they become exhausted in the future.

Looking Ahead

It will be a major undertaking for the ministry to put in place the organization, policies, systems, and data banks needed to manage its gravel resource in a cost-effective manner. The ministry is aware of the shortcomings of its current practices and has taken some actions to move to a more sophisticated management system for gravel. There is still much work to be done. The Legislative Assembly should expect the ministry to create an overall plan for improving its gravel management practices, and to assign the responsibility and resources needed to meet the goals identified in the plan.

Ministry of Transportation and Highways:
Buying Signs

A review of the business relationship between the ministry and the privatized sign shop

Audit Purpose

In 1988, as one of its privatization initiatives, the government sold the assets of the Ministry of Transportation and Highways' sign shop that for almost 40 years supplied all the highway signs used in the province. Since then, the government has purchased all highway signs from private sector suppliers. In conjunction with the sale of the sign shop, the government agreed to purchase highway signs for a period of five years from Tran Sign Ltd., the company that bought the sign shop.

We conducted our audit to determine whether the ministry is a prudent purchaser when buying signs from the private sector. We did not question the terms of the agreement between the government and its current supplier, or the events that led to the government entering into this agreement. These matters were considered in an audit we conducted earlier and reported on in our 1989 Annual Report.

We conducted our audit during the period June to September 1989. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusions

In our opinion, the ministry in the first 18 months of the sales agreement with Tran Sign Ltd. had not done all the things necessary to manage the agreement soundly. It does not have an adequate system to monitor sign orders or an adequate quality assurance program. It also did not meet its minimum purchase commitment in the first year of the agreement and, as a result, it had to renegotiate the terms of the agreement at a somewhat higher cost to the province.

These difficulties have arisen mainly because the ministry is accustomed to making, rather than buying, signs. To improve its performance, we believe the ministry needs better order information and a quality assurance program.

Privatization of the Sign Shop

The Sales Agreement

On April 8, 1988, the government sold the assets of the Ministry of Transportation and Highways' sign shop in Langford to a company called Tran Sign Ltd., owned by former employees of the ministry. On the same day, the Province entered into a Sales

Agreement with the company for the supply and purchase of signs for a five-year period. Through the Sales Agreement the government agreed to purchase, in each of the five years of the agreement, a minimum quantity of signs at a fixed price. The minimum annual quantity declines from 20,000 m^2 in the first year of the agreement to 15,000 m^2 in the fourth and fifth years. During the first year of the agreement with Tran Sign Ltd., the ministry was required to purchase all its signs from the company. In subsequent years, the ministry may buy signs from other suppliers, although it is required to purchase or cause to be purchased certain minimum quantities in each of the four years.

The price of signs was fixed for the first year of the agreement. In subsequent years, price increases are limited to covering the demonstrated increases in the cost of materials and freight. Discounts for purchases over specified minimum quantities are also provided for.

The Sales Agreement states explicitly the materials to be used in sign construction, the sign specifications, the shipping schedules, and the payment provisions.

Relationship Between the Ministry and Tran Sign Ltd.

The ministry and its current sign supplier occupy roles that are not usual in arm's length business relationships. Until recently, both parties were part of the same organization and shared many interests. Now they must adapt to the new working relationship. We believe the ministry must act more critically, particularly in the areas of performance monitoring and quality assurance. The ministry must ensure that both it and Tran Sign Ltd. meet their performance obligations under the contracted Sales Agreement.

The essence of a contract is an exchange of promises. In this case, the Province has promised to purchase and pay for signs. The supplier has promised to produce and deliver signs and has agreed to provisions regarding quantity, quality, delivery, price, discounts, and other matters. Both parties to a contract have an interest in ensuring that they are meeting their obligations and that the other party is also doing so. We found that the ministry is not collecting the information it needs to ensure that both it and the supplier are meeting their obligations.

Privatization of Road and Bridge Maintenance

As part of its privatization efforts, the government contracted with private sector companies to maintain roads and bridges throughout the province. These contracts provide for the maintenance of signs, including replacement where necessary. The maintenance contractors are required to purchase all signs needed from Tran Sign Ltd. These purchases are included in the government's contract as part of the minimum quantities that the government has agreed to purchase.

The maintenance contractor must absorb the cost of all signs replaced as part of the regular maintenance obligation. Therefore, it is in the contractor's best interests to minimize the number of signs it replaces under the maintenance contracts as long as it can maintain a level of service that is acceptable to the ministry.

Monitoring the Sales Agreement

Monitoring the Contract

The ministry does not accumulate data on how many signs have been purchased and, therefore, has no independent means of monitoring the quantities of signs purchased during any year of the agreement. It must rely on Tran Sign Ltd. to provide it with this information. This means the ministry has difficulty ensuring that it can meet its commitment to purchase minimum quantities of signs in each year of the agreement. It also has difficulty knowing when it might be entitled to discounts for volumes over the minimums.

Minimum Purchase Commitment

In the first year of the agreement, the government did not meet its commitments to purchase 20,000 m^2 of signs. Because maintenance contractors did not purchase as many signs as the ministry had anticipated, total purchases amounted to less than 15,000 m^2. As a consequence, the ministry was subject to the penalty provisions of the contract. It subsequently agreed with Tran Sign Ltd. to purchase the first year's shortfall in the remaining years of the agreement. As compensation, it advanced $240,000 to Tran Sign Ltd. against future purchases, and is renegotiating the agreement's provisions for guarantees and payment process. Amendments to the agreement had not been finalized at the time of our audit.

Price Increases

As provided for in the agreement, Tran Sign Ltd. proposed, at the end of the first year of the contract, a unit price increase based on increases in the cost of materials and freight. The ministry reviewed the proposal and agreed to an increase less than that proposed by the company. The approved increase amounts to approximately 6%. We believe that the ministry handled this part of its contract management responsibilities adequately.

Quality Assurance

Because substandard signs may not become apparent for several years, any deficiencies in manufacture must be identified early enough that effective remedial action can be taken.

The ministry has not tested signs supplied by Tran Sign Ltd. to ensure that they have been fabricated according to the specifications. When signs were produced by ministry employees, it was appropriate to assume that acceptable quality would be maintained. The ministry is relying on Tran Sign Ltd. to produce the same quality of sign that was produced in the past.

In our opinion, now that the ministry is dealing with a private company, it cannot continue to assume that Tran Sign Ltd. will produce signs that meet the ministry's standards. We believe that the ministry must establish its own program to provide it with assurance that its sign supplier is meeting construction specifications.

Alternative Suppliers

The ministry has not begun to develop alternative sign suppliers. It has indicated that it believes its current needs can be satisfied by Tran Sign Ltd. and that it is too early to consider developing other potential suppliers.

To derive maximum benefits from the competitive market, we believe the ministry must be in a position to purchase signs from suppliers other than Tran Sign Ltd. Its current preference for specific materials (for example, steel stop signs) or fabrication techniques (heat-activated rather than pressure-sensitive application of reflective material) may limit the opportunity for competitive bidding. An alternative approach would simply indicate the required durability or warranty for signs, not the specific materials or fabrication techniques to be used.

We believe the ministry should start planning now for the time it will begin to purchase signs in a competitive market. It should work with the Purchasing Commission in this.

Looking Ahead

In the short term, the Legislative Assembly should expect the ministry to ensure that the ministry has adequate information about sign quantity, quality, delivery, and price to [illegible] to meet its obligations and obtain value for money under the current agreement. This includes ensuring that signs supplied meet quality expectations, that any price increases are justifiable, and that volume discounts are realized when available.

In the longer term, the Legislative Assembly should expect the ministry or the Purchasing Commission to identify and develop other potential sign suppliers. This is particularly important if the ministry wants to ensure that there is a strong competitive market at the time the agreement expires.

Ministry of Transportation and Highways: Services, Facilities and Attractions Signs

An examination of the ministry's implementation of the Services, Facilities and Attractions sign program

Audit Purpose

During the past two years, the Ministry of Transportation and Highways has undertaken a new program of providing blue and white road signs to support tourist-oriented businesses in the province. The stated purpose of the program is to provide clearer, better information to travellers, to clean up the rights-of-way across the province and, by removing unnecessary signs, to enhance their scenic value.

We conducted this audit to assess whether the ministry took reasonable measures to ensure that it obtained value for money when implementing the program. These measures we evaluated against three standards of performance: that the ministry ensured it had sufficient information to evaluate the value-for-money consequences of the program before it decided to proceed; that it achieved economy in implementation; and that it conducted an evaluation of the program's success after completion. In making our assessment, we accepted the stated objectives of the program as the measure for program success.

We conducted our review of the Services, Facilities and Attractions sign program during the period June to September 1989. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusions

In our opinion, the ministry did not take all reasonable measures before implementing this program to ensure it would obtain value for money. Although it did some pre-implementation testing of the program, the testing did not cover enough of the key program features, such as sign removals and installation costs, for the ministry to have sufficient information to evaluate the value-for-money consequences of the program before proceeding with it.

We believe that in two areas the ministry spent more money than was necessary to implement the program. First, it chose to install the signs using contractors that were more costly than an available alternative. Second, it paid a premium for rapid sign fabrication even though the targeted installation deadline was not met.

At the time of our audit, the ministry had completed the installation of the initial signs, but had deferred completion of the right-of-way cleanup. At September 1989, the ministry had not evaluated the success of the program, although it was planning to do so.

Highway Signs

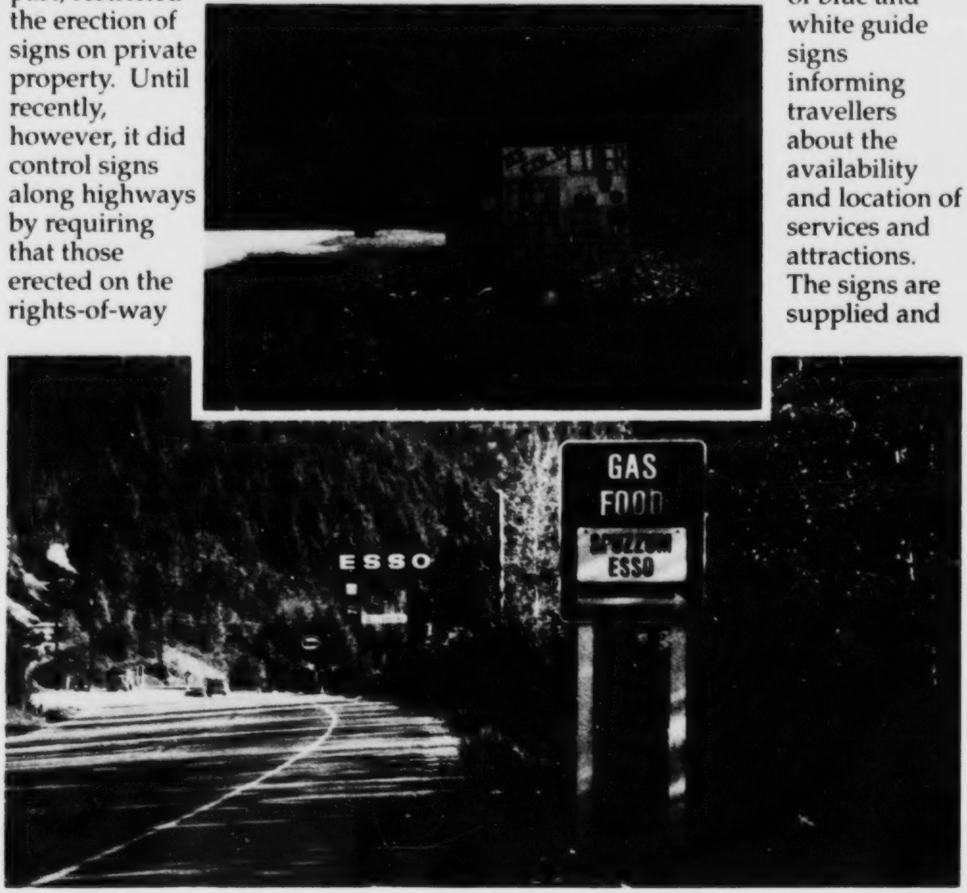
Control of Private Signs

The Ministry of Transportation and Highways has authority to control signs on highway rights-of-way. It also has authority to control signs on private property in rural areas within 300 m of the highway.

The ministry has not, in the past, restricted the erection of signs on private property. Until recently, however, it did control signs along highways by requiring that those erected on the rights-of-way have a permit issued by the ministry. All other signs were removed by ministry crews. Since 1984, in an attempt to support business suffering from the recession, the ministry has not tried to control private signs on the rights-of-way. As a result, private signs have proliferated.

A New Sign Program

The Services, Facilities and Attractions sign program is a cooperative venture between the Ministry of Transportation and Highways and the Ministry of Tourism. It involves the installation of blue and white guide signs informing travellers about the availability and location of services and attractions. The signs are supplied and



erected at no cost to the owners of businesses that meet the qualifying criteria for the program. The program was intended ultimately to help strengthen local and provincial economies. The program also provides for the removal of private signs from highway rights-of-way, making the roadside more attractive for the travelling public.

The signs used in this program are in addition to existing road signs which provide information, directions, and traffic control.

Establishing Services, Facilities and Attractions Signs

Preliminary Assessment

Two pilot projects were conducted before this province-wide program was begun. We would have expected the ministry to have evaluated the effectiveness of the program either during or after the pilot projects—but before the ministry committed to the full program.

We found no evidence, however, that the ministry conducted such an assessment. The evaluation done after the first pilot project focused on the implementation process, not on whether the program was likely to achieve its intended goals. Before the second pilot project was completed, the ministry decided to implement the full program. This decision was made with limited evidence that the program would be able to meet its objectives, particularly in removing private signs from the highway rights-of-way.

Acquiring and Erecting the Signs

The new province-wide sign program was started with the goal of having all the new signs in place at the start of the prime tourist season, July 1, 1989. Removal of private signs was to take place immediately after the new blue and white signs were installed.

The ministry has spent approximately $4 million under this program to produce and install signs. Although fewer signs have been erected than expected, installation costs have been higher. There have also been additional costs to the ministry for personnel and other resources used in developing and implementing the program, which were not included in the budget. Costs of removing signs from the rights-of-way are yet to be determined.

All signs were produced by Tran Sign Ltd. To meet the July 1 deadline, the ministry agreed to provide an incentive to have Tran Sign Ltd. accelerate production. The ministry advanced funds to enable Tran Sign Ltd. to purchase raw materials, and agreed to pay for overtime work and additional equipment costs directly related to the accelerated production schedule. The ministry paid a total premium of approximately $34,000 for overtime and equipment rental.

The new signs were installed throughout most of the province by private contractors who were awarded contracts after a public tender. Each road and bridge maintenance contract contains provisions for the installation of new signs by the maintenance contractor, and the ministry could have had the signs installed under these contracts. However, it decided to use a separate contract in an effort to make business opportunities available to other contractors.

In four districts, all of the bids received from contractors were considered to be too expensive and the ministry proceeded using its own resources. In five districts new contractors were awarded the sign installation work. In the remaining 19 districts, the sign installation contract went to the company that already had the road and bridge maintenance contract.

In every district, the cost of installing signs under separate contracts was higher than the cost specified in the road and bridge maintenance contracts. While it is difficult to calculate precisely the additional costs associated with using separate contracts, we estimate that the total costs of sign installation are more than 25% higher than they would have been had the signs been installed using the road and bridge contracts.

We believe the road and bridge maintenance contracts should have been used to install the services, facilities and attractions signs in the 19 districts where the separate contract went to a company that already had a maintenance contract.

The Results

The July 1 deadline was not met. Tran Sign Ltd. was unable to produce all the required signs, partly because the ministry required that it give priority to other signs ordered by the ministry. Installation of signs was also delayed, as a result of delays in the awarding of contracts, shortages in support structure materials, and other priorities in contractor work schedules.

As of September 1989, installation of the Services, Facilities and Attractions signs has taken place throughout the province. However, the ministry has made less progress in having private signs removed from the rights-of-way. It now intends to permit many of the existing private signs to remain along the highways for the next five years. It has postponed any efforts to deal with signs on private property.

The ministry has indicated that it intends to evaluate the effectiveness of the program. However, its evaluation will, of necessity, be limited to those aspects of the program that have been implemented. As private sign removal has been deferred, this aspect of the program cannot be evaluated.

Looking Ahead

The Legislative Assembly should expect the ministry to evaluate and report on the success of the Services, Facilities and Attractions signs program.

It may have difficulty isolating the effect that the new blue and white signs have on the objective of providing better information to tourists; or assessing the effect that this program might have on strengthening the local and provincial economies. It should, however, have little trouble assessing the extent to which it has been successful in cleaning up the highway rights-of-way.

Ministry of Transportation and Highways: Annual Report

Accountability to the public

Audit Purpose

We conducted this audit to determine if the Ministry of Transportation and Highways' *Annual Report 1988/89* contains sufficient, reliable information, in an understandable form, to allow the Legislative Assembly and the public to judge the ministry's performance.

We conducted our audit in the fall of 1989. Because the ministry had not yet published its 1988/89 annual report, we based our audit on a draft of that report. When we were preparing our 1990 Annual Report, the ministry still had not released its 1988/89 annual report. Consequently, we are unable to determine whether our comments pertaining to the draft report will remain valid for the final published version. We provided the ministry with our analysis of the draft report in November so that they might revise it before publication.

Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We concluded that the ministry's 1988/89 annual report does not contain sufficient information to allow the legislature and the public to judge the ministry's performance. In particular, information on the client condition and state of the road system are needed, as are more comparative data on ministry performance.

The process the ministry used to assemble the report included suitable control over the reliability of data.

The report was also understandable, but could still be improved if the language were simplified.

Our Standard for Annual Reports

In 1984 we developed an accountability model which identifies the types of information the legislature and public need to judge ministry performance.

Not only should each category of information shown in the model

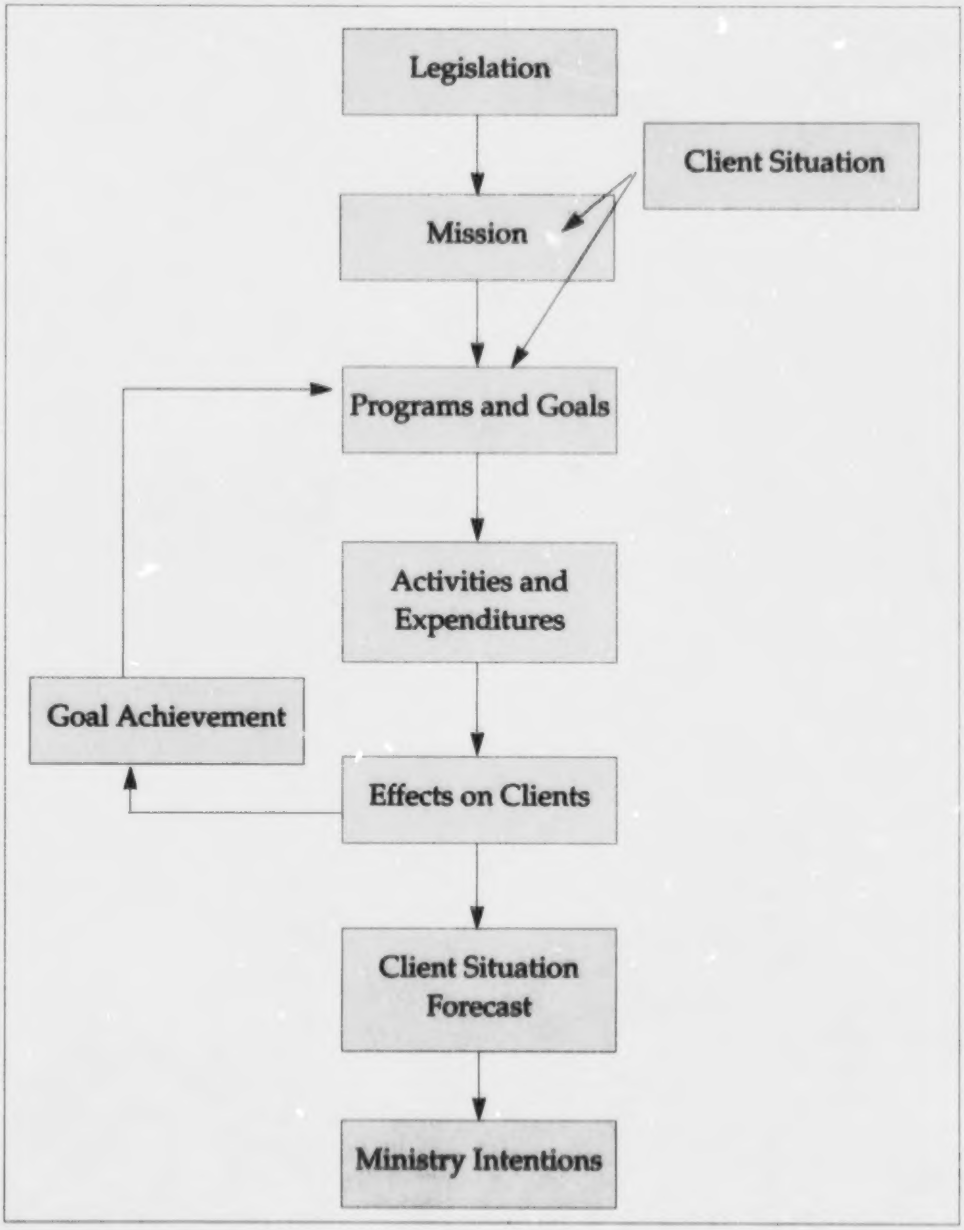

Legislation
Client Situation
Mission
Programs and Goals
Activities and Expenditures
Goal Achievement
Effects on Clients
Client Situation Forecast
Ministry Intentions

FIGURE 3.4

An Accountability Model

appear in the annual report, but the annual report should show the relationship among the categories. Thus, the legislative direction provided in acts and the knowledge of the client situation or need should shape the ministry's mission, goals, and programs. The program activities and expenditures produce specific effects on clients, the desired effects being goals. Finally, the forecasts of the future situation of the client and the ministry's intentions give a preview of the coming year.

This model is consistent with more recent recommendations on accountability reporting, such as those contained in the Canadian Comprehensive Audit Foundation's 1987 publication, *Effectiveness: Reporting and Auditing in the Public Sector*.

To our model we added criteria for making the text more readable, including using pictures, graphs, and tables, using non-technical language, and taking care in layout.

We used the same criteria for content and presentation in this audit as we used in our 1984 audit.

The History of the Ministry's Annual Reports

In 1984 we assessed the annual reports of all the ministries to see if they met an acceptable standard for public accountability. Our overall opinion was that they did not.

The Ministry of Transportation and Highways' annual report at that time had some important strengths. For example, it provided a large quantity of data, and some of the data was organized by electoral district, a feature we saw as specifically intended to provide accountability. Overall, however, the report did not tell an organized story about the ministry's performance. Only a knowledgeable reader with persistence could pry some interesting information from the mountain of raw data. The key steps needed for improvement were to identify which data were essential for accountability, and to present them in an easily understood manner.

In its 1986/87 annual report, the ministry made a major change in content and format. The report was presented in two parts: a formal annual report and a statistical supplement. The formal report was concise, closer in its structure to our accountability model, and less technical in its language. However, the information it contained was incomplete. The statistical supplement provided much, but not all, of the detailed data of the older reports.

Although the ministry has stated that its new approach to reporting was in response to our 1984 audit, we do not believe the new report conforms well with the advice we provided in 1984. The draft 1988/89 annual report, the subject of this audit, is better than those of 1986/87 and 1987/88, but major improvement is still needed for the ministry to meet its obligation of public accountability. The main areas needing improvement are discussed below.

Improving the Annual Report: Structure

Only part of the 1988/89 annual report is structured by program. Reporting of over 75% of ministry expenditure (highway capital and maintenance) is structured by ministry department.

The basic story-telling units in an annual report can either be ministry program or ministry department. Programs are the way that the public usually understands the ministry's purpose and services. Departments are an internal view of the ministry, unfamiliar to the public. Also, each program includes all the accountability elements — clients, purpose, budget, activities, and results — whereas each department may not include all of those elements. For these reasons, we recommend that the annual report use programs as its basic structure for providing accountability.

In its 1988/89 annual report, the ministry tells five program or project stories: reorganization, privatization, a transportation plan, major projects, and a new sign program. Each is more comprehensible than the rest of the report, which lists the activities of various ministry departments.

Improving the Annual Report: Sufficiency of Information

Clients

Who the ministry's clients are is not apparent in the 1988/89 annual report. Our accountability model for annual reports stresses that a ministry must identify its clients and their condition or needs. The goals and results of programs can then be related accordingly.

The client situation for Transportation and Highways could be described in two ways. One is based on the investment of several billion dollars by taxpayers in the provincial highway system. The ministry has an obligation to account for its management of this investment by reporting on the capacity and condition of the roads and bridges, and on whether enough rehabilitation and maintenance is being done to provide the best lifetime value for money from the investment. The 1988/89 annual report does not contain an overall assessment of the state of the highways asset, nor does it indicate whether, at current funding levels, the infrastructure is being eroded, maintained or enhanced.

The ministry states that its mission is "to provide and maintain safe and efficient movement of people and resources on a provincial transportation system." It has five main programs to do this: transportation planning, major capital construction, highway capital construction, highway capital maintenance (rehabilitation), and highway maintenance. There is a logical relationship among these five. Transportation planning identifies the needed road capacity and considers the impact of alternative modes of travel, such as air and public transit. Major and highway capital construction projects (the latter are smaller than major projects) build new roads. Rehabilitation reduces maintenance and defers new highway construction. Maintenance prevents premature wear of the road, deferring rehabilitation or construction. The quality of initial construction affects the need for future rehabilitation and maintenance. Finally, the service level (two-lane, four-lane, paved, unpaved) of current construction satisfies needs in the transportation plan for varying time periods into the future. The common thread throughout these programs is lowest lifetime cost. The 1988/89 annual report does not show any of these relationships. To provide proper accountability, it should do so.

In addition to an accounting on the state of the overall investment, the ministry should also describe the need for transportation in each region of the province. Monies are spent on roads because certain people have certain needs. The size of the population, the numbers of cars and trucks, and the amount of industry in each area identifies the clients for roads, and the client needs. The annual report should therefore describe the condition of the roads that is, the extent, type, and state of repair of roads and bridges — and provide usage and accident statistics. This information is not present in the 1988/89 annual report. If it were, the ministry could then relate its programs (construction, rehabilitation, maintenance) to the client numbers and road conditions in each area.

Expenditures

To be accountable, the ministry should report what it spent, what the expenditures bought, and whether the cost was reasonable. The 1988/89 annual report provides some summary financial information and, particularly in the supplement, lists many specific works and the money spent on them. It does not, however, deal adequately with the issue of reasonable cost. In addition, there are some major omissions in the detailed information provided — information on the road and bridge maintenance contracts, for example.

Reasonable cost is determined by comparing the expenditures for completed works with the original estimates or budget. In only one write-up, that on the Okanagan Connector, does the ministry compare cost and budget. We think it should do so for all its works. As well, we believe the ministry should demonstrate that the budgets themselves represent good value for money. This would require the ministry to address lifetime least-cost approaches for distributing funds among initial construction, annual maintenance, and periodic rehabilitation.

Results

The ministry should also report on results: what was the intended effect and what was the actual effect of the activities and expenditures of the ministry. The 1988/89 annual report and supplement list many in-progress and completed works, but these results lack context because there is no description of the client in the report. The reader should be informed, for example, as to how completion of the Richmond East/West Freeway has affected capacity, commuting time, and safety. Unless the results are related to effects on clients, accountability is deficient.

Forecasts

Little forecast data are presented in the 1988/89 annual report. Although accountability is primarily a look backward at results rather than forward at expectations, there is a clear public interest in knowing what is likely to happen in the future. Our accountability model asks the ministry to describe the expected client condition, anticipating that it achieves its program goals.

The 1988/89 annual report includes some comments about future programming, especially on the transportation plan and major projects, but this information is limited. We realize the ministry is restricted by the government policy-making process in how much forecast information it can reveal. However, it always knows its budget for the next fiscal year when it is writing the annual report for the current year. We believe that the ministry should, at a minimum, include forecast data for the next fiscal year, especially in time-series graphs and tables.

Providing Context

The main purpose of accountability reporting is to show the extent to which goals are achieved. Few goals in government are absolute or fully objective; most are relative and involve judgment. Because of these latter attributes, information about achievements needs context.

One aspect of context is that there be enough background information for the report to stand on its own. The 1988/89 report in most sections provides such context: the reader is not assumed to have read previous annual reports. Throughout the report, however, the reader still needs additional data to be able to assess the significance of the information presented.

This additional contextual data is of three types. One shows comparisons, for example, as to how British Columbia compares to other provinces, or how one region compares to another. The ministry presents a number of tables of comparative data; for example, on highway capital and maintenance expenditures by electoral district. However, this data lacks context because the electoral districts vary significantly in size and population. Without some measure of "price per unit" a reader cannot make meaningful comparisons.

The second type shows hierarchical relationships; that is, how an activity is part of a larger whole. Throughout the report, for example, there are references to planning, design, grading, and paving, but there is no explanation as to how these relate to road building.

The third aspect of context is change over time, which is important to a reader's assessment of whether matters are improving or deteriorating. For example, the 1988/89 report provides only the current-year regulatory statistics. Without some prior years' data, a reader cannot know from this if the ministry's workload has significantly increased or decreased.

We believe the ministry should improve all forms of context data in its annual reports.

Improving the Annual Report: Understandability

We believe the 1988/89 annual report is too complex and uses too much technical language to be easily understood by members of the legislature and the general public. We acknowledge that writing about a technical subject for a non-technical audience is difficult, but it can be done. If the ministry accepted the idea that it is writing for an audience that is interested in, but not familiar with, its business, we believe the writing style would improve. Because the ministry publishes a statistical supplement with the annual report, it can keep its main report simpler than if it had to publish all the relevant material together. We recommend that the ministry take more care in writing its annual reports so as to improve their understandability.

Improving the Annual Report: Reliability

We believe the process used by the ministry to prepare its annual report suitably controls the reliability of the data in the report. First, the ministry assigns the preparation of the annual report to a single senior manager. Clearly assigning this responsibility helps ensure that care will be taken with the quality of the product. To ensure the accuracy of the information, the managers responsible for each program provide the necessary data to the writers. Once written, the report in draft form is returned to the contributors who confirm the accuracy of the material. Finally, the completed report is formally accepted by the executive of the ministry, who recommend its issuance to the Minister.

Improving the Annual Report: Timeliness

We believe the ministry is significantly weakening the value of its annual report as a public accountability document by failing to make it public within six months of the end of the reporting period.

In our review of annual reporting in 1984, and again in comments in our 1987 report, we expressed concern about the delay with which annual reports became available to the legislators and public. We advised ministries that the reports should be made public within six months of the fiscal year-end as required by Treasury Board regulation, and that prior tabling in the legislature was not required.

An accountability report must be timely to have impact. The ministry, however, will not publish its 1988/89 annual report until April 1990, a year after the end of the period being reported. This delay means that much of the report's content will be superseded by events. As well, the *1990/91 Estimates* will be released about the same time as the 1988/89 annual report, further shifting attention away from the annual report. Even if the 1988/89 annual report is well written, it will not have the impact it should, because of the delay in its tabling.

The coincidental timing of the *1990/91 Estimates* and the 1988/89 annual report emphasizes the problem. The public will have before them, in the Estimates, an outline of the ministry's programs for the coming 1990/91 year, yet the debate on these intentions will lack information about the year just past (1989/90). Only information that is over a year old (1988/89) will be available.

It would require real dedication to accountability for the ministry to prepare its future annual reports in time to table them while the legislature was still in its spring sitting. But it could be done. Failing that, we think the ministry should release its next annual report (1989/90) no later than September 30, 1990.

Looking Ahead

The legislature and public should expect a marked improvement in the ministry's annual report starting with 1989/90. We have provided the ministry with a detailed, line-by-line critique of their 1988/89 report, showing what needs improving and making suggestions about how to do so. We believe the ministry has the talent and resources to act on our findings.

Response of the Ministry of Transportation And Highways

Road and Bridge Maintenance

The Ministry is pleased to acknowledge the assessment of the audit report on road and bridge maintenance. The report's observations and recommendations, when taken together, provide a fair reflection upon the Ministry's management of road and bridge maintenance within the first year of implementation.

The Ministry is particularly pleased with observations regarding road maintenance standards and the Quality Assurance Program. Indeed the Ministry considers itself to be the North American leader in both these areas, as we are not aware, after extensive consultation with both the Roads and Transportation Association of Canada (RTAC) and the American Association of State Highway and Transportation Officials (AASHTO) of any other jurisdiction that has developed either standards or performance measurement to the extent present in British Columbia.

The audit report refers to three areas of significance requiring improvement in the view of the Auditor General. The Ministry responds to each as follows:

Standards for Managerial Control

The audit report is concerned that the maintenance contracts do not provide adequate assurance that the contractors will prepare plans and undertake tasks that are necessary to warrant performance against the maintenance standards.

The Ministry believes the audit report has made a useful observation and has already begun to ask certain contractors for more detailed management plans where we suspect the contractor may not be adequately prepared. Consideration will also be given to building this element into the contract documents for the next contract.

While the benefit of this audit comment is acknowledged, it must be observed that there are important limits to the Ministry's intervention on how the contractors meet the terms of their contract. The acid test of contract compliance is based upon results on the road.

Maintenance Standards vs Road Safety

The report is concerned that current maintenance standards, while comparable to other jurisdictions, may not equate to safe driving conditions. The Ministry shares this concern. We also concur that more formalized user feedback is prudent. Nevertheless, the Ministry is strongly of the view that its historic methods of reviewing the adequacy of road standards is the best means of ensuring safe driving conditions.

The Ministry has a long history of maintaining roads Province-wide under every possible condition. Through a combination of both trial and error and empirical research, the Ministry has developed standards and methods that work given the limitations of finite resources and available technology. Furthermore, the Ministry has, from its inception, been an active partner in RTAC. This Association provides an opportunity to review *maintenance standards and practices throughout Canada, and through its collaboration with AASHTO to review similar practices throughout the United States. In addition, many co-operative research projects have been launched by Canadian highway agencies to test the effectiveness of both materials and maintenance routines. The benefit of this research is reflected in Ministry standards.*

Evaluating Contractor Performance

The audit report expresses concern that not all elements of the Quality Assurance Program have been fully implemented. The Ministry shares this concern and has taken steps to review how the program is being implemented in each District and is giving line managers feedback on improvements required. In addition, developmental sessions between District management staff and contractors have been held and more are planned to ensure all parties better understand the requirements of the Quality Assurance Program.

The Ministry is cognizant of improvements needed and commits to enhancing our process of evaluation. At the same time the Ministry is aware that new contractual relationships, such as for road and bridge maintenance, must progress through an evolutionary cycle before they achieve full maturity.

Major Capital Projects

The audit report has provided a balanced and fair assessment of progress by the Ministry to totally revamp its management of major projects. The report is a useful document for purposes of continuing to enhance project management.

Three substantive issues referenced in the audit report are of prime importance to the Ministry. They are: cost estimating, project control, and quality control. Each of these areas is fundamental to good project management and every effort will be made to improve upon them. Specifically the Ministry will:

Cost Estimating

Increased priority will be given to the development of a data base to enhance project estimating.

Project Control

Consideration will be given to additional resources that should be employed to more effectively ensure the integrity of the project scope, schedule, and budget. Currently this is provided for within the project teams for each major project but, in view of the audit comments, consideration will be given to the need for a more independent assessment.

Quality Control

A review will be undertaken of the timing and intensity of Ministry efforts to warrant quality control on each project. As noted in the audit report, principal accountability for professional services now falls to the private sector. Nevertheless, the Ministry in its role as owner of the Provincial highway system, believes it is critically important to have its own representatives vet major design solutions at appropriate stages in each project. To this end, every major project has a team of seasoned professionals assigned as staff experts to the Project Director. In view of the comments contained in the audit report, however, we will review procedures to ensure this goal is met.

Development Approvals

The audit report shows a good understanding of the development approvals process and gives fair assessment of the Ministry's performance in the area. It will be of great help to the Ministry in its continuing effort to improve its level of service.

The report refers to four areas which require strengthening. The Ministry agrees and is taking the following actions:

Uniform Decision Making

The Ministry is presently rewriting its policy on development approvals to bring more clarity to it. This policy will be made available to the development community so that there will be no mystery as to what the rules are. It is also actively considering having Approving Officers' decisions reviewed by their peers on a random basis.

Independent Appeal Process

The report points out that there is a Ministry appeal process through the management hierarchy. However, in view of the audit comments, consideration will be given to develop a more independent review process. The Ministry will be investigating models of appeal processes used elsewhere in Government.

More Checking of Complex Applications

The Ministry will endeavor to include in its new policy procedures which bring about the checking that is suggested by the report.

Improve Timeliness of Service

As the audit recognized, the Ministry has been taking steps to improve the development approval process. It also recognized that the level of service provided by the Ministry was generally more prompt than that provided by municipalities. Time standards for each area of approval are being set and these will be measured and audited to ensure compliance. This should ensure more consistent and timely service.

Gravel Management

The audit report has provided a good assessment of the status of the Ministry's Gravel Resource Management program. The report correctly identifies the present status of the program and the future directions it needs to follow.

Two areas of the audit report are concerned with deficient Ministry procedures. The Ministry is taking steps to ensure that gravel usage is being properly accounted for and utilized. The Ministry concurs with the recommendation to effect better planning for future gravel resources and has established a project team to accomplish this requirement, on a priority basis, in future years.

The Ministry recognized the need for a comprehensive Gravel Management Program and had the planning and development process in operation prior to the auditing of the program. The Ministry appreciates the advice and review of this program that has been given by the Auditor General

Buying Signs

The audit report has provided fair and complete assessment of the sign *procurement process by the Ministry. The contract entered into with Tran Sign Ltd. was the first privatization initiative in the Ministry and it has been a successful venture for both parties.*

The audit report refers to four areas of the procurement policy that the Auditor General has identified where improvement is needed. The Ministry responds to each as follows:

Monitoring the Contract

The audit report is concerned that the Ministry does not have an adequate method to ensure that it is meeting its obligations under the contract as regards to the quantity of signs that are ordered and received.

This observation is valid and a more assured method of determining the sign quantities will be implemented for the balance of the contract period.

Minimum Purchase Commitment

The audit report noted that the Ministry did not meet its obligations in terms of quantities ordered during the first year of the contract.

The contract has been renegotiated and the amendments finalized to ensure that funds are only paid for quantities of signs that are received during the contract period.

Quality Assurance

The audit report has identified that insufficient testing was accomplished to ensure that quality products were being received.

The Tran Sign Ltd. contract is a specified material and manufacture process contract, rather than end product specification. A more frequent compliance inspection program will be implemented to ensure that contract obligations are being met by the contractor.

Alternate Suppliers

The audit report expresses concern that alternate suppliers of traffic signs have not been developed by the Ministry.

The Ministry knows that there are other companies already in existence that supply signs to other government agencies and municipalities. There is no need at this time to develop other suppliers.

The Ministry fully intends to purchase all its sign requirements through the Purchasing Commission when the contract obligations to Tran Sign Ltd. cease to exist.

Services, Facilities and Attraction Signs

The Ministry acknowledges receipt of the audit report and generally is in agreement with the contents.

The audit report is critical of the method used by the Ministry to install the new signs. The Ministry's approach was guided by the normal practice of carrying out such works by a public tender process. The audit states that costs would have been less if the rates in the Road and Bridge Maintenance contracts had been utilized. This option was considered by the Ministry and rejected for the following reasons:

a) The unit prices in the Road and Bridge Maintenance contracts were *negotiated on the basis that they would be used for normal replacement of signs. As the Service and Attraction signing was an extensive short term initiative not visualized in the negotiation for road and bridge maintenance contracts regarding sign replacement, the Ministry adopted the more normal tendering approach.*

b) The Ministry wanted to include other contractors as well as the Road and Bridge Maintenance contractors who could also bid on the public tender.

The Ministry responds to the audit report's comments on advancing the program implementation date, and hence the costs, by stating that this was a decision based on the initial results of the pilot projects and a decision to implement the program in time for the 1989 tourist season.

The audit report shows concern with regard to the removal of private signs on the highway right of way. The Ministry is reviewing this portion of the policy and revisions will be made to the policy during 1990.

The Ministry considers the implementation of the Service, Facilities and Attraction Sign policy to have been implemented in an expedient and effective manner as possible. It will continue to revise and manage the program to meet the needs of the travelling public.

Annual Report

The Ministry is pleased to receive the critique of the Auditor General relating to our Annual Report. In general we agree that the report is basically a disclosure document and as such should be formatted and detailed to provide as much information as can reasonably be assimilated.

In this regard, the Ministry view is that the appropriate level of information is being provided to meet the intended purpose of the Annual Report. All relevant information is available either in the Annual Report or in the supplement to the Annual Report and as such the Annual Report itself should be concise and to the point.

Structure

Attempts have been made to present Ministry activities on a program basis, however, some activities, in our opinion, are better presented on a departmental basis. For example, the activities of the Systems Branch, and Personnel Programs are better on a departmental basis.

Sufficiency of Information

It remains the view of the Ministry that the Annual Report should be solely directed to providing a clear, factual and objective statement of accomplishment in the previous fiscal year.

Understandability

Every effort will be made to ensure the report is more readable.

Reliability

We are pleased to note that the Auditor General feels that the information contained in our Annual Report is reliable.

Timeliness

The Ministry will continue to meet the Legislative timing requirements for tabling of the Annual Report.

Privatization: Introduction

In 1988 we conducted several value-for-money audits of the Government's privatization program, which was announced on October 23, 1987. In our 1989 Annual Report, we reported the results of the following audits:

- a review of the process designed for ministries to follow in privatizing government programs and activities;
- an examination of the first three privatizations completed under the program: the Queen's Printer publications section in Victoria, the soil lab in Kelowna, and the Ministry of Transportation and Highways' sign shop in Langford;
- a review of the privatization of the road and bridge maintenance operations for southern Vancouver Island; and
- an examination of loans sold by the British Columbia Enterprise Corporation.

During the past year we continued our review of the privatization program. Several additional privatizations were completed by the government during 1989. We examined one of the largest of these — the sale of the Westwood Plateau property in Coquitlam by the British Columbia Enterprise Corporation.

Those privatizations that were completed earlier entered a new phase in 1989. The operations that were previously part of government had been sold and during the past year the government began managing the service agreements that formed part of most of those privatizations. We examined the government's monitoring of the service contracts that formed an integral part of three earlier privatizations — environmental laboratory services, road and bridge maintenance, and highway signs.

Our reports on the results of two of these audits — the sale of the Westwood Plateau property and managing the environmental laboratory services contract follow directly after this introduction. The other two audits — monitoring the road and bridge maintenance contracts and the highway signs contract — were done as part of our value-for-money audit in the Ministry of Transportation and Highways. The results of those reviews are included with our other reports on the Ministry which are also contained in this part of our Annual Report.

In addition to reviewing certain aspects of particular privatizations during the past year, we also assessed whether the government reported the financial results of privatization transactions in the most appropriate way. Shortly after the government announced its privatization program, it established a Privatization Benefits Fund to hold the proceeds derived from that program. The first formal accounting for the financial results of privatization transactions was presented by the government in its Combined Financial Statements for the fiscal year ended March 31, 1989. The results of our independent review of that accounting are included in Part V of this Annual Report.

Privatization: Monitoring Environmental Laboratory Services

An examination of how the Ministry of Environment ensures the quality of environmental testing after the ministry's laboratory was privatized; and how the sale of the ministry's laboratory affected the cost of laboratory services

Audit Purpose and Scope

We conducted this audit to assess the adequacy of the system set up by the Ministry of Environment to monitor the quality of the laboratory services it purchases from private sector laboratories, and to review the operation of that system. In addition, we looked at how the sale of the Environmental Laboratory has affected the cost of laboratory services.

In examining the monitoring system we focused on the ministry's responsibilities for monitoring the laboratory services it buys. We did not examine the operation of the privatized laboratory.

Our audit was carried out primarily between June 1989 and October 1989 although certain information with respect to the costs of contracted services cover the first full year of operation. Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We concluded that the ministry did not have an adequate system to ensure that the quality of work performed by the privatized laboratory met its expectations. The quality assurance program designed by the ministry did not include the procedures required of a sound monitoring system. In addition, the procedures that had been implemented were not operating satisfactorily.

The ministry had sufficient information to account for the cost-effectiveness of the services it purchased. We analyzed the ministry's data and concluded that the direct costs of the services provided during the first year of the contract were more than they would have been had the ministry continued to operate the Environmental Laboratory. We found that some of the costs that the government used to calculate the savings anticipated from privatizing the laboratory have been exceeded, although the full long-term impact of these variances is not known at this time.

Privatizing the Environmental Laboratory

The government established the Environmental Laboratory in 1971. At the time of its sale in 1988, the laboratory was a part of the Ministry of Environment, which was its main customer. In support of the environmental monitoring activities of the ministry's Air and Waste Management Programs, the laboratory analyzed water, wastewater and air samples, and operated and maintained air quality monitors. It served other government ministries and several public bodies as well.

The government announced its intention to privatize the Environmental Laboratory in September 1987. After soliciting proposals for the purchase and operation of the laboratory, it announced in September 1988 that Zenon Environmental Inc. (Zenon) was the successful purchaser. Zenon bought most of the assets for $850,000.

A service agreement between the ministry and Zenon was signed on January 6, 1989. It calls for Zenon to provide laboratory services to the ministry for a minimum amount of $2.8 million per year for a five year period.

Operating and maintaining air quality monitors was not included in the agreement with Zenon. British Columbia Research Corporation (B.C. Research) was contracted by the ministry to calibrate the air quality monitors.

Most of the services the ministry is purchasing from Zenon are routine laboratory services. In any laboratory, the quality of these depends on the laboratory's quality control procedures and its internal quality assurance system. With the sale, an external quality assurance program was needed as well. To do this, the government contracted separately with B.C. Research to develop and operate such a program.

The selection of B.C. Research was made without competitive bidding. An interim three-month contract with B.C. Research to provide these services was renegotiated in 1989 to a five-year contract ending in December 1993. Under the terms of this agreement, the contracted services are to cost the government $415,000 per year.

Industry has also been required to participate in this quality assurance program. Companies with permits under the waste management program must carry out laboratory analyses and monitor air quality in accordance with their permit requirements. Under a new regulation, they must now also pay a fee to B.C. Research. The amount of the fee depends on each company's permit provisions: it is not a fee for service. In total, approximately 800 permittees are expected to pay B.C. Research around $560,000 per year as their share of the cost of the quality assurance program. These funds allow B.C. Research to conduct quality assurance checks on permittees' air and water monitoring results. Such procedures give the ministry greater assurance that it is getting reliable information from industry.

As part of this reallocation of responsibilities, the ministry transferred a group of former laboratory employees into its Data Standards Group. This group uses the information provided by B.C. Research to assess the reliability of analytic results produced by Zenon and the permittees. B.C. Research analyzes laboratory samples and provides the results to the Data Standards Group. The Data Standards Group is responsible for interpreting the results, determining whether the data is acceptable, and managing the computerized data base that stores the analytic results.

The shift in major responsibilities resulting from the privatization of the Ministry of Environment's laboratory is set out in Figure 3.5. This allocation of responsibilities for service provision and performance monitoring among the three parties is intended to provide ministry management with sufficient assurance that Zenon and B.C. Research are performing within the standards contracted for, and that the laboratory results of those companies holding permits to discharge waste are of acceptable quality.

Under the new arrangements, the government remains responsible for ensuring that the quality and level of services being provided allow it to fulfill the legislated mandate of its programs, and to achieve its policy goal of maintaining environmental quality. With the services contracted out, it is important that the government ensure it has an adequate system to monitor the performance of

FIGURE 3.5

Reallocation of responsibilities after privatization of the Ministry of Environment Environmental Laboratory

Laboratory Services Reponsibilities

Before Privatization

Environmental Laboratory
- laboratory services
- instrumentation repair services
- internal quality control and quality assurance
- methods development
- calibration of air monitors
- data management

After Privatization

Zenon
- laboratory services
- instrumentation repair services
- internal quality control and quality assurance
- methods development

B.C. Research
- methods development
- calibration of air monitors
- quality assurance program for Zenon (new)
- quality assurance program for industry (new)

Data Standards Group
- data management
- management of quality assurance program (new)
- contract management (new)

both Zenon and B.C. Research against the terms and conditions of their contracts.

Ensuring Quality

The Design of the Quality Assurance Program

The ministry had not adequately identified all of the objectives, policies or procedures that should be the foundation of its quality assurance program. Consequently, it did not have an adequate program.

Setting the Framework

The ministry needs information about the performance of its two contractors if it is to have sufficient information about the quality of environmental data. We found that it had not established an adequate program for obtaining that information.

Figure 3.6 shows the components that should exist in an adequate quality assurance program. It also shows the extent to which these quality assurance requirements

FIGURE 3.6

A review of the ministry's adherence to the requirements of a comprehensive quality assurance program

Quality assurance (QA) program components	Have the requirements been met?
Ministry Related	
Ministry QA program plan documented, approved	No
QA policy statement	No
Roles, responsibilities identified	Yes
Semi-annual assessment	No
Plan for corrective action	No
Implementation plan for QA program	No
Contractor Related	
Contractor's internal QA plan documented:	
- B.C. Research	Yes
- Zenon	Yes
Approval of contractor's QA plan	Yes
Performance audit procedures:	
- split samples	Yes
- reference samples	No
- blind samples	No
- inter-lab comparisons	Yes
Performance audit results evaluated	Yes
Systems audit procedures:	
- review internal quality control	No
- equipment maintenance procedures	No
- standard operating procedures	No
- data processing controls	Yes
- staff qualifications, experience	No
- documentation review	No
Systems audit results evaluated	No
Reports to ministry management	Yes

were met by the ministry's program. There were many ministry — and contractor — related activities that still had to be addressed.

We found that ministry staff were aware of many of these deficiencies and recognized their significance. At the time of our audit, the ministry was considering how it could add blind samples and reference samples to the program, and was studying the form and content of management reports. However, it had not yet developed a plan that identified the ministry's position for each of the components in Figure 3.6.

We believe the ministry needs to revisit its concept of quality assurance. Since it is responsible for quality assurance, it should clearly describe how it intends to meet this responsibility in a comprehensive quality assurance plan. Such a plan should recognize two major components: performance audits and systems audits. To the date of our audit, the ministry had focused its efforts on performance audits and not on systems audits. We think ministry management should demonstrate its commitment to the program by developing and approving a comprehensive quality assurance plan.

Performance Audits

The ministry contracted with B. C. Research to conduct a quality assurance program. In reviewing the responsibilities assigned in the contract, we found that the procedures specified were too narrow in focus to be viewed as a complete program. For instance, there was a heavy emphasis on the use of split samples. This procedure, which involves splitting a sample into two parts and having each part analyzed by a different laboratory, does not provide the same assurance about laboratory performance as do some other testing procedures. Because the government had not contracted with Zenon before and therefore was unfamiliar with the quality of its laboratory testing, we believe more focus should have been placed on procedures relating to the laboratory analysis itself.

A complete quality assurance program generally includes the use of reference samples. With these, the composition of the sample tested is known beforehand. The results of the laboratory analysis are then compared to the predetermined composition to determine the accuracy of the laboratory's testing procedures. The contract with B.C. Research recognized the need for such tests. It required B.C. Research to provide and use two sets of reference samples annually. During the first year of the program's operation, however, B.C. Research did not use any reference samples.

A third element of performance auditing is the use of blind samples. Like reference samples, the composition of the sample tested is known to the auditor beforehand, but unlike reference samples, the laboratory is unaware that the sample being analyzed is a test. The ministry's quality assurance program did not identify blind samples as a component.

We were advised that the ministry had been considering these additional quality assurance procedures and that it had contracted with a federal laboratory for blind samples to add to its program. It was also looking into ways by which it could add reference samples to the program. We support these efforts to improve the quality assurance program.

The ministry has required both Zenon and B.C. Research to participate in inter-laboratory studies. These tests are designed to evaluate the quality of a laboratory's analytic techniques and allow for comparison against other laboratories. Both laboratories will be involved in these studies on an ongoing basis.

For a quality assurance program to be effective, not only the type of testing but also the extent of testing must be appropriate. We believe the ministry should review the extent of performance testing required by its quality assurance program. Companies with discharge permits are now required to split 10% of the samples they take and submit a part to Zenon for analysis; the ministry is required to split 5% of its samples. While these sampling percentages do not appear to be unreasonable, we found no statistical basis to support them. If reference and blind samples were incorporated into the ministry's quality assurance program, there is the possibility that the government could achieve the quality assurance it requires with reduced split sampling levels. We believe the ministry should evaluate its mix of performance audit procedures to ensure that they meet the ministry's needs cost-effectively.

The contract with B.C. Research specifies five visits per year to each air monitor. Again, we found no statistical justification for this level of testing. We were advised that the ministry used to test its air monitors eight to twelve times a year and it was decided that five is more appropriate. Indeed, there is some question as to whether five visits per year are required. Many of the people we interviewed felt that fewer than five calibrations per year would be acceptable. With the funding provided in the contract, B.C. Research believed that three visits per year is a more realistic target. The ministry was reviewing its monitoring requirements to determine whether its initial expectations were too high. It had not yet identified what testing level will meet its quality assurance needs.

Systems Audits

A comprehensive quality assurance program also requires that the operations of the laboratories be subject to audit or examination. The main components of this aspect of quality assurance are identified in Figure 3.6. At the time of our review, only one of the requirements was being addressed by the ministry.

This is of particular concern to us. The ministry should base the extent of performance auditing, in part, on the confidence it has that the laboratory's internal control systems are producing quality data and are operating consistently. To rely on the laboratory's internal control procedures, the ministry must conduct periodic audits of these quality control systems and assess their adequacy. The ministry's quality assurance program did not require such reviews.

The ministry had recently updated the procedures manuals which are to be used by the contractors. These now describe the procedures the laboratories should follow when performing tests. Although the new manuals should ensure greater contractor awareness of the ministry's expectations of the procedures for particular tests, the ministry will still need to satisfy itself that the contractors are adhering to the requirements of these manuals. It will also need to ensure that the other aspects of the laboratories' operations, which are not covered by the manual, are also satisfactory.

The ministry should ensure that it has a comprehensive quality assurance program, one that integrates both performance audits and systems audits.

Implementing the Quality Assurance Program

We noted that numerous problems had been encountered in implementing the quality assurance program. With each of the participants fulfilling a new role, many of the problems stemmed from uncertainty with respect to specific responsibilities and procedures. The problems were exacerbated because the quality assurance program was put together hurriedly. Questions about whether the right program was being implemented, and about what resources were needed, arose even after the program was underway.

Learning New Roles and Relationships

According to ministry staff, the British Columbia model is unique in North America. No other jurisdiction has divorced itself from operating an environmental laboratory and the related quality assurance program so completely as British Columbia. Therefore, there was no comparable jurisdiction that could be used to demonstrate that the approach adopted in British Columbia was cost-effective or manageable. More time is needed for the parties to learn their new roles before the success of the program can be determined.

Zenon started operating the laboratory with fewer staff than the ministry had had. When the laboratory was privatized, only 12 of 32 laboratory employees decided to join Zenon. New staff had to be recruited to achieve the required operating levels. However, since Zenon had a background of providing laboratory services, it was generally able to respond to the new demands.

To fulfill the requirements of its contract, B.C. Research had to hire staff, purchase equipment and master new procedures. The air calibration laboratory equipment purchased from the ministry required more time to set up than anticipated. As a result, no air monitor calibrations were performed for over five months.

Ministry staff, as well, had to undertake new responsibilities. A designated contract manager shared monitoring responsibilities with the

Data Standards Group. Staff in Data Standards had to undertake new roles, working with contractors and monitoring their performance. New lines of communication had to be established between the contractors and ministry field staff.

Expanding the waste management sampling program to include companies with discharge permits, at the same time as privatizing the laboratory, added to initial start-up problems. The quality assurance program required ministry field staff to collect split samples for their own environmental monitoring as well as for permittee monitoring requirements. The method and frequency of collecting these samples were new and had to be learned. Furthermore, the equipment needed for split sampling was not immediately available.

The transition to the new program was more complicated and difficult than the ministry had initially anticipated. This resulted in start-up problems with which the ministry and B.C. Research were still grappling at the time of our audit.

Providing Quality Assurance: B.C. Research

The performance of B.C. Research is the key to effective operation of the quality assurance program. The company plays an important role in two areas: analyzing split samples as a basis for evaluating Zenon's performance; and providing quality assurance for the ministry's air monitors by calibrating the instruments. It was therefore of concern that the company had not met the performance targets contracted for by the ministry.

B.C. Research monitors Zenon's performance by conducting its own analysis on one part of a two-part sample (a split sample). The other half is analyzed by Zenon. The ministry's Data Standards Group then compares the results of B.C. Research's analysis to the results produced by Zenon. Data Standards evaluates the test results of the two samples to determine whether Zenon's performance is meeting acceptable quality standards.

Of the samples analyzed during the first five months of last year, the number of significant differences in the results of the two tests exceeded expectations. When differences in test results arise, the ministry needs to be satisfied that B.C. Research, as the quality control group, is providing the accurate test result. The quality assurance program relies on B.C. Research being accepted as the standard for accurate analytic results. The evidence, however, indicated that this had not been achieved.

Neither Zenon nor B.C. Research performed as well as expected on the first pair of inter-laboratory studies in which they participated This made it difficult for the ministry to determine whose results were accurate when analytic results differed. As a result, the ministry's assurance about the quality of the analytical results was significantly reduced.

Over the first five months of 1989, ministry field staff submitted only 20% of the split samples called for by the quality assurance program. Consequently, B.C. Research was not able to perform tests on the required number of samples. Split sampling levels were subsequently increased so that 40% of expected levels were reached by August 1989.

B.C. Research is also responsible for visiting and checking the ministry's air monitors five times per year. This number of visits had not been achieved. Based on the annual target, one should expect approximately 65 visits in the first five months, yet only 25 were carried out. The ministry expected that only two visits to each air monitor would be completed in the first year.

Evaluating Contractor Performance: Data Standards Group

The need for a quality assurance program did not arise solely from the sale of the laboratory. When the ministry operated the laboratory it had an internal quality assurance program. It was a necessary part of producing reliable information. An additional need exists now. Because both Zenon and B.C. Research are independent private sector companies whose respective quality is unknown, the ministry must now manage an external quality assurance program, taking on a management role it did not have before.

The ministry's Data Standards Group is responsible for managing the quality assurance program. It is in a position to evaluate the performance of both contractors, and to summarize the quality assurance information for management. It is also responsible for evaluating the quality assurance information provided by B.C. Research, to determine whether Zenon's work is meeting the ministry's quality standards.

The Data Standards Group was staffed entirely with experienced employees whose roles in the Environmental Laboratory were quality assurance oriented. The manager of the group was the senior quality assurance officer in the ministry. He should have had a major role in developing the ministry's quality assurance program plan. We found, however, that while he had management and administrative responsibilities for the program, he had not formally given his approval to the program. Indeed, his position had not been given that authority. We believe that the quality assurance program should be formally approved by the ministry's senior quality assurance officer.

Important elements of managing the program, such as what information the Data Standards Group is to report to management, had not yet been determined. Because the program was slow in getting started, the reporting needs of management had only recently been studied. We believe formal reports indicating the effectiveness of the quality assurance program should be made to the ministry's Management Committee on a quarterly basis.

Ensuring Cost-Effectiveness

Monitoring Costs and Service Levels

We found that the ministry is actively monitoring the costs and services of both contractors. The ease of managing the contracts differs because the laboratory services contract with Zenon is based primarily on fixed prices for each test, while the quality assurance contract with B.C. Research is based on charge-out rates and actual costs. It is more difficult for the ministry to verify the reasonableness of the charges for the quality assurance contract. We found that quality assurance costs have greatly exceeded the ministry's original expectations.

The contracts with Zenon and B.C. Research are based on the expectation that the ministry will receive certain services for the contract amounts. To ensure it receives a cost-effective service, the ministry must monitor both the volumes of work submitted to B.C. Research and to Zenon, and the related costs . In addition, it must ensure that B.C. Research does a sufficient number of audits to have valid results about the quality of work done by Zenon.

Zenon

Zenon's contract has two cost components. The contract provides for a specific cost for each laboratory analysis and a charge-out rate for other services. The ministry must ensure that at least $2.8 million of work is submitted to Zenon in the proper pattern if the service is to remain cost-effective.

The Zenon contract places substantive restrictions on the ministry. It calls for a fixed minimum annual total payment irrespective of the workload levels. In other words, the ministry must pay Zenon $2.8 million per year whether or not it requests tests of this value. The ministry expects to submit sufficient tests annually to meet the minimum annual total. The timing of these submissions and Zenon's ability to perform is important. There are both monthly and quarterly billing targets. The contract requires that the ministry pay a monthly minimum of $198,333. If services billed are less than that amount, the ministry makes up the difference through an adjustment payment.

The contract also demands that at least one quarter of the annual fee amount be paid each quarter, even if the workload does not warrant that amount. This is done through an adjustment payment each quarter. In this respect, the contract is really a series of related quarterly contracts with payment adjustments made at the end of each quarter, if necessary.

The ministry is working with Zenon to develop better reporting formats to improve the information provided to the ministry. The proposed formats we examined contained quality assurance information, cost control information, and management information. If these formats are implemented, we believe the ministry will have a suitable basis for managing laboratory costs.

B.C. Research

The B.C. Research contract is for $415,000 per year, with no adjustments for inflation. The government can withdraw from the contract on six months notice without financial penalty. It is more difficult to manage than Zenon's. It is based on the contractor's charge-out rates and actual costs rather than a specific price list.

Several changes to the B.C. Research contract have resulted in higher costs per service than had been planned. The interim contract for October to December 1988 was based on a specified fixed price for each laboratory test and air monitor calibration. Because the ministry believed that the prices in the interim contract did not reflect the true costs of providing the services, a new contract was negotiated. However, fixed prices were not included in the new contract.

The subsequent five-year contract was based on a cost-plus-expenses basis, a less preferred method of pricing than fixed costs. This method of pricing leaves the ministry vulnerable to cost overruns and provides little incentive to the contractor to operate efficiently. Recently, this contract was renegotiated so that prices are based on B.C. Research's standard charge-out rates for its staff and actual costs for materials and other expenses.

Our review of invoices for January to May 1989 found that the amounts claimed were significantly higher than were expected. The following illustration shows the differences between prices identified in the interim contract and the average amount paid by the ministry.

	Price per interim contract	Paid by ministry
Air monitors	$475/ monitor	$1851/ monitor
Split samples	$17.14/test	$85.25/test

Information supporting the invoiced costs was inadequate to explain how the costs were calculated. The ministry recognized this and spent additional time and effort to determine how much it should approve for payment. The total amount finally paid was less than had been billed.

The ministry believes that the high average costs are due in part to start-up inefficiencies and expects that the average cost will drop over time. However, it has not yet identified just what acceptable economic prices should be. It appears that the costs will be higher than those identified in the interim contract. Consequently, the ministry will either receive less service for the contract amount, or it will have to spend more than the contract amount to receive the planned service levels.

Examining the Cost Implications

We found that no one was assessing whether the laboratory services are being provided at less cost than that which would have been incurred if the ministry had continued to operate the Environmental Laboratory. From our analysis of actual costs, we believe the privatized service will cost more money in the first year. We found that some of the costs that the government used to calculate the savings anticipated from privatizing the laboratory have been exceeded, although the full long-term impact of these variances is not known at this time.

The First-Year Results

During the first year of privatized operations, the government paid adjustments of $180,000 to Zenon for which no services were received. These adjustment payments are a cost that would not have existed before the sale.

The contract protects Zenon on both monthly billings and quarterly totals. The contract calls for a minimum monthly payment of $198,333. In any month that the fees for the services actually rendered in a month are less than the monthly minimum, the ministry must adjust its payment to the monthly minimum amount. During 1989, the ministry paid two monthly adjustments totalling $48,000.

The contract also requires the ministry to pay Zenon at least $700,000 each quarter, an amount equal to one quarter of the annual minimum. If billings for the services actually rendered in a calendar quarter are less than the quarterly minimum, the ministry must adjust its payment to the quarterly minimum amount. During 1989, the ministry paid two quarterly adjustments totalling $132,000.

The contract provides no allowance for recovery of these amounts, even if the workload in future quarters exceeds the quarterly minimum. Only if the ministry has built up a "credit" by receiving services costing more than the quarterly minimum in a previous quarter can it avoid the quarterly adjustment cost. The credit applies only against future quarterly shortfalls. Figure 3.7 shows the cost effect of different hypothetical work flows.

FIGURE 3.7

Impact of work flow on costs and services

	(a) $	(b) $	(c) $
First quarter	700,000	575,000	575,000
Second quarter	700,000	675,000	675,000
Third quarter	700,000	900,000	900,000
Fourth quarter	700,000	500,000	650,000
Services received	2,800,000	2,650,000	2,800,000
Cost to ministry	2,800,000	2,800,000	2,950,000
Adjustment payment required	0	150,000	150,000
Credit carried forward	0	0	150,000

(a) Even work flow each quarter (minimum contract requirement).
(b) Cyclical work flow without exceeding annual minimum amount.
(c) Cyclical work flow with annual minimum amount exceeded.

The figure shows that a credit can be established only if more than $2.8 million is spent annually. It also shows that the ministry can spend the minimum amount and receive less than the minimum service, or it can spend more than the minimum amount and receive only the minimum service.

How this billing adjustment provision will affect cost-effectiveness will depend on the ministry's ability to plan and maintain workload levels. Services purchased by the ministry in the 1989 calendar year exceeded the contract minimum of $2.8 million. As a result, the ministry has a "credit" of $385,000 which it can apply against any future quarterly shortfalls. However, as the credit applies only to quarterly adjustments, the ministry will still have to pay for any monthly shortfalls.

To December 1989, the ministry has paid 6% more for the services received than it had planned. This difference is due entirely to adjustment payments which were made in the first half of 1989. The ministry must plan its environmental sampling program on a monthly basis if it is to avoid future adjustment payments. Regions will have to be held accountable for their sampling program budget.

The Five-Year Picture

At the time of the sale the government estimated that by having the private sector provide laboratory services, it would save $1.1 million in operating costs over the five year period of the contracts with Zenon and B.C. Research. During our audit, we found that some of the costs that were used by the government to calculate these savings were being exceeded. However, the full long-term effect of these differences is not known at this time. A number of other factors also influence whether the anticipated savings will be realized.

The government's savings projection was calculated by comparing the projected costs of the laboratory if it were retained, to the projected costs if it were sold. The costs of the services provided by Zenon are in keeping with the original projections, except for the adjustment payments made during the first year. However, we found that some of the estimated after-sale cost targets are not being realized. Pricing changes to the B.C. Research contract will increase the actual costs above those previously estimated unless service expectations are reduced. As well, the enhancements required to establish an acceptable quality assurance program will likely result in additional costs to the ministry.

In addition to affecting operating costs, the sale of the ministry's laboratory resulted in certain indirect benefits. For example, because of the sale, the government has eliminated the need for further investment in the laboratory. As well, the government was able to invest the proceeds from the sale of the laboratory's assets and earn interest income. However, the sale resulted in indirect costs as well. For example, not all of the laboratory employees joined the contractor's staff. The ministry had to absorb the cost of retraining and relocating the employees who stayed with government.

Looking Ahead

The Ministry of Environment has been trying to implement an effective quality assurance program since the summer of 1988. It is still trying to do so. We believe the problems are too fundamental to solve by individual adjustments, add-ons and deletions.

The ministry must revisit its concept of quality assurance and establish a unified, comprehensive program that addresses the ministry's needs in a logical, cost-effective manner. The ministry should demonstrate its commitment by documenting a formal quality assurance program plan which outlines the policies, objectives and components of the program. The senior quality assurance officer should formally approve the plan, as should senior management. The ministry should also evaluate the cost-effectiveness of the alternative quality assurance procedures available to it for achieving the ministry's goals.

Without these efforts, the ministry is merely carrying out a series of quality assurance procedures without the proper framework for decision making. A key part of this program plan should be serious consideration of alternatives to the current matrix of roles and responsibilities. The ministry's flexibility in this respect is limited at present as it has no laboratory capability of its own, and so is committed to using contracted services for carrying out its quality assurance program.

The Legislative Assembly should expect to see the ministry bring about major changes to its quality assurance program.

It is management's responsibility to account for the performance of its programs. We believe the ministry is accumulating sufficient information to be able to identify the impact of the sale of the Environmental Laboratory has had on the cost of laboratory services. The ministry should provide a complete accounting of the effect the laboratory's sale has had on costs and performance. If it does not, the extent of the savings, if any, will not be known.

Subsequent Event

On April 17, 1990, just prior to the printing of our Annual Report, the Ministry of Environment informed us that it had, that day, signed an agreement with Zenon Environmental Inc. that will allow the Ministry to claim the costs of future work against the "adjustment payments" of $180,000 referred to earlier in this report. The timing of this agreement precluded us from reflecting its effect in our audit report.

Response of the Ministry of Environment

Introduction

This section sets out the ministry's response to the report prepared by the Office of the Auditor General on the cost and quality of environmental testing services purchased from private sector laboratories.

The response concurs with the audit team's finding that, at the time of the audit, the ministry did not have a fully functioning system to ensure the quality of work performed by the privatized laboratory. We point out, however, that the ministry's quality assurance function was implemented in two distinct phases. Phase I, which was underway at the time of the audit, focused on methods development, documentation of the contractors' internal quality assurance plan and the introduction of external performance audit procedures. Although important and covering a wide range of measures, these procedures did not encompass the full range intended by the ministry. Phase II which was launched in April 1990, implements requirements for systems audits and additional reference samples. With these added procedures, ministry efforts in monitoring the performance of BC Research and Zenon address all the essential quality assurance requirements identified in the audit report.

Our response disputes the auditors' claim that the privatized services have cost more than they would have had the ministry continued to operate the environmental laboratory. We point out that adjustment payments to Zenon in the first year of privatized operations are carried forward as a credit for future services. For this reason, the payments will not affect projected cost-savings from the sale of the laboratory. We also point out that increases in anticipated service volumes that have taken place since the time of the sale will result in additional cost savings of more than $100,000 over the life of the contract.

For convenience, our response follows the sequence of the audit report. Thus, direct reference can be made to each of the areas examined by the auditors. Our response also qualifies and provides further elaboration on specific audit findings where the ministry believes this is required for a complete understanding of the issues involved.

Audit Scope

As is noted in the audit report, the British Columbia model implemented in 1989 is unique in North America. Moreover, the scope of the audit relating to the quality of testing services was restricted to the early months of the first year of privatized operations, during which time the ministry, BC Research and Zenon staff had to learn new roles and relationships. It is not therefore surprising that the auditors were able to note start-up problems.

Privatizing the Environmental Laboratory

This section of the audit report mentions the ministry's recently implemented Quality Assurance Program covering laboratory analyses and air quality monitoring undertaken by or on behalf of private companies who hold permits under the waste management program. This extension of the ministry's quality assurance efforts to cover data received from industry has meant that laboratories used by permit holders receive closer monitoring in British Columbia than in any other jurisdiction in Canada. In so far as these efforts also apply to work performed by Zenon, the ministry has additional information to assure the quality and reliability of work undertaken by the privatized laboratory.

Ensuring Quality

The audit report errs in its assertions that the ministry's performance audit procedures did not use either reference samples or blind samples of predetermined composition to test the accuracy of Zenon laboratory test results during the first year of the privatized program. Reference samples were used in national inter-laboratory studies as early as April 1989 and requirements for blind samples were implemented in October 1989.

The audit report states that the use of split samples does not provide the same assurance about quality as do some other testing procedures. The report then goes on to suggest that the use of reference and blind samples would reduce the split sampling levels now required by the ministry. The ministry disputes the inference that split sampling is an inferior procedure. Because they measure errors introduced during collection of the sample at the field location and any alterations in the sample (natural or otherwise) during the shipment to the laboratory, as well as any errors or uncertainty in the laboratory analysis, split samples are especially useful in ascertaining the total uncertainty in the reported data. Reference samples, blind samples and inter-laboratory studies are indeed especially useful in assessing the uncertainty in the data that is caused by the laboratory analysis, but they are limited to this component. It does not follow that increase in procedures designed to test only laboratory analyses can replace the need for split samples. A comprehensive quality assurance program requires an appropriate mix of all the above-mentioned procedures.

The ministry is committed to the ongoing improvement of its quality assurance efforts as regards both the service contract with the Zenon laboratory and other laboratory analyses received from industry. We therefore concur with the auditors' suggestion that the ministry again evaluate its mix of performance audit procedures to ensure that they meet the ministry's needs cost-effectively.

It should be noted that the level of testing of air monitors specified in the contract with BC Research results from a 1988 ministry review of the previous four years of audits conducted on its own air monitors and on those operated by industry. Ministry operated monitors have been audited an average of more than 8 times a *year, while those operated by industry were audited only twice a year. The results of the ministry review indicated that audits of industry equipment should be increased and that audits on ministry equipment could be reduced. Given the operational advantage of a single audit team being able to visit all monitoring sites in a region on the same trip, it was decided that ministry and industry monitors should be audited equally, and the judgement of the professionals involved in the review indicated that five audits annually would be appropriate.*

Our experience since the 1988 review indicates there is some question as to whether five visits are required. Accordingly, the ministry is again reviewing its monitoring requirements to determine whether our current expectations are, as the auditors suggest, too high.

The ministry also agrees with the auditor's view that routine reviews of the Zenon laboratory's internal control procedures and quality control systems are necessary to assess their adequacy. From the beginning, the ministry required documentation of the contractor's internal quality assurance plan. And while our initial quality assurance efforts focused on implementation of performance audit procedures, as of April 1990 the ministry's contract management procedures also include the full range of systems audits.

The ministry concurs with the audit finding that results from the first pair of inter-laboratory studies significantly reduced the ministry's assurance about the quality of analytical work undertaken by both Zenon and BC Research. We would point out, however, that both laboratories had achieved a satisfactory performance level by the end of 1989.

The ministry agrees with the audit report's recommendation that the senior quality assurance officer have a major role in developing and approving the ministry's quality assurance programs. We would point out that an Acting Director of Data Standards was appointed in January 1990, and that the incumbent in this position led the review and revision of the ministry's quality assurance program that was undertaken in the latter part of 1989. As well, formal reports relating to the implementation of the quality assurance function have been made to the ministry's management committee in September and November of 1989 and again in February of 1990.

As is noted earlier in our response, the ministry's quality assurance function has been implemented in two distinct phases. Phase I, which was underway at the time of the audit, focused on methods development, documentation of the contractors' internal quality assurance plan and the introduction of external performance audit procedures, including inter-laboratory studies, split samples, blind samples and air monitor site visits. Phase II, launched in April 1990, implements requirements for systems audits and additional reference samples, thereby ensuring a comprehensive quality assurance program.

Ensuring Cost-Effectiveness

As is noted in the audit report, the ministry is actively monitoring the costs and services of both contractors. Also, as a result of improved reporting formats developed jointly with Zenon, the ministry has a good basis for managing laboratory costs.

The ministry agrees with the audit finding that fixed-cost pricing is to be preferred over the cost-plus-expenses approach currently in place in the ministry's contract with BC Research. It is therefore the intention of the ministry to amend the contract with BC Research to specify unit pricing for performance audit services provided to the ministry.

The audit report correctly notes that quality assurance costs have greatly exceeded the ministry's original expectations. It should also be noted that these unanticipated start-up costs were, for the most part, incurred in the first few months of the program and are, for the most part, non-recurring.

The auditors' conclusion that the $180,000 adjustment payment made in the first year of the contract represents a permanent loss to the ministry is incorrect. Arrangements recently concluded with Zenon will allow the ministry to claim cost for future work against this amount.

The ministry agrees with the audit recommendation that regions will have to better plan their environmental sampling program on a monthly basis if they are to minimize costs incurred for laboratory services.

The ministry remains confident that it will achieve cost savings estimated at the time of the sale. As is noted in the audit report, the costs of services provided by Zenon are in keeping with the original projections. Moreover, enhancements to the quality assurance program have been more than offset by new cost savings that will result from increased demand and contract provisions for a 14% price reduction for services that exceed the specified minimum. Based on current estimates of these additional volumes, the ministry expects to achieve a cost savings of more than $100,000 over the life of the contract; this amount being additional to savings estimated at the time of the sale.

Looking Ahead

The ministry is satisfied that the design and operating framework for its quality assurance efforts are among the best in Canada. Indeed, outside British Columbia, only one other province provides for external performance audits to assess the quality of data it receives from laboratories used by permit holders.

The ministry acknowledges that it did experience significant start-up problems during the program's first year of operations. Given the magnitude of the improvements being undertaken by the ministry, these problems were not unexpected. They did however create some delays in implementing all components in the ministry's quality assurance program. Nevertheless, the ministry has been successful in implementing a *comprehensive and effective quality assurance function, both for data received from industrial permittees and for services contracted from the Zenon laboratory.*

As well, the ministry is committed to the ongoing review and improvement of its quality assurance efforts. To this end, the ministry has recently appointed external auditors to review efforts to date and make recommendations for improvements. The ministry intends to appoint an on-site quality control inspector at the Zenon laboratory and will introduce a quality assurance information program, including a technical newsletter distributed to ministry staff, permittee and commercial laboratories, a brochure for public distribution and program orientation seminars in regional offices. The ministry also plans to complete a further review of its quality assurance efforts following six months operation of Phase II of the program. A major component of this review will include an evaluation of the cost-effectiveness of alternative quality assurance procedures and consideration of alternatives to the current matrix of roles and responsibilities.

Privatization: British Columbia Enterprise Corporation Westwood Plateau Property

An examination of the sale of the Westwood Plateau lands by British Columbia Enterprise Corporation

Audit Purpose

As part of its program of privatization, the British Columbia Enterprise Corporation sold its Westwood Plateau land holdings for $63 million. We reviewed the sale of this property to determine whether the process used in the sale was adequate to provide Cabinet with sufficient, reliable information to evaluate the value-for-money consequences of its decision. We also assessed the fairness of the government's representations relating to the value for money achieved from this sale.

Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We believe the process followed in the sale of the Westwood Plateau adequately provided Cabinet with the information it needed to evaluate the value-for-money results of this privatization — with the following exception.

The decision to sell the property in one parcel or several was a critical one. The Privatization Advisory Committee considered subdividing the land, but decided against doing so given the corporation's mandate, the time constraints imposed by the impending demise of the corporation, the technical difficulties imposed by the terrain, and the restrictions in the development agreement with the District of Coquitlam.

Because the Committee believed these impediments precluded subdivision, it chose to sell the land in one piece without determining the net proceeds that would possibly be realized from the sale of several subdivided parcels of land. We believe that the committee's judgment was based on beliefs that were not substantiated in all cases, and that it should have requested appraisals and prepared financial models for various multi-parcel options before making its decision.

Furthermore, the government made fair representations regarding this privatization during the sale process and tried to make the details of the proposals public, although it was not able to obtain the necessary consent to do so from all the parties submitting proposals.

The Corporation

British Columbia Enterprise Corporation (BCEC) is a provincial Crown corporation that ceased active operations as of September 30, 1989. The Westwood Plateau property was transferred from a ministry of government to British Columbia Place Ltd. in April 1986, for development. Legislation changed the name of British Columbia Place Ltd. to British Columbia Enterprise Corporation effective March 31, 1987.

Before BCEC began developing the land, the government decided to remove itself from active participation in the property development business. This decision was based on the government's belief that the private sector is best suited to carrying out housing development programs because that sector possesses the necessary skills and financial capability. Also, the government did not feel that it should be involved in an activity that had a high risk for the taxpayer.

In keeping with this policy, the government decided to close down BCEC. Accordingly, the corporation was given a mandate to sell its assets, substantially in their current condition, as promptly as possible, for fair value. Excluded from the assets to be sold were those which, because of their special nature or because of public policy considerations, the government decided to transfer to itself for ongoing administration or disposal.

The corporation's mandate included the following objectives:

- to manage the sale or transfer of assets and liabilities to permit the timely and orderly conclusion of all of the operations and affairs of the corporation and its subsidiaries;

- to conduct transactions in a manner that would bring credit to the government's privatization program;

- to make the lands available for development by the private sector; and

- to encourage local and regional development.

The specific mandate established for the privatization of the corporation's land holdings was as follows:

- to encourage local and regional economic development by ensuring that lands held by the corporation were made available for development by the private sector; and

- to obtain fair value for government from asset disposition.

In August 1988, the Minister of Crown Lands appointed a Privatization Advisory Committee to provide advice and assistance on the sale of the corporation's land portfolio. The committee included members from the corporation, the ministries of Crown Lands, Regional Development, and the Attorney General, and the private sector.

The committee determined that it would achieve its mandate by:

- identifying properties which, in the best interest of the Province, should be retained rather than sold;

- establishing and managing an appropriate disposition process which would:
    - obtain fair value for the Province consistent with the schedule for closing down the corporation on March 31, 1989;
    - maintain good business principles and an open competitive process; and
    - avoid the requirement for further participation by the corporation, including carried interest, except where such arrangements substantially benefit the return to the Province; and
- evaluating proposals received, and making recommendations to the Board of Directors of those proposals which best met the objectives of the Province for the sale of the properties.

The Westwood Plateau

The Westwood Plateau development site is the largest land holding sold under the government's privatization program. It is a block of approximately 570 hectares (1410 acres) of prime residential land located in the District of Coquitlam, British Columbia (Figure 3.8). It is estimated that topographical and other development constraints reduce the developable area to approximately 325 hectares (800 acres). A planning study estimated that the lands should be suitable for approximately 4,400 mixed density residential dwelling units and that up to 500 units could be marketed per year.

The development of the land is governed generally by the Northwest Coquitlam Official Community Plan and specifically by a development agreement between BCEC and the District of Coquitlam.

The Marketing Strategy

The members of the Privatization Advisory Committee have considerable knowledge and experience in real estate and property development, and they did consider many factors before deciding to sell the Westwood Plateau property as one parcel. Nevertheless, the committee did not prepare financial models for the various marketing alternatives. In our opinion, the information this analysis would have provided was necessary for the committee to understand fully the value-for-money consequences of selling the land in one parcel.

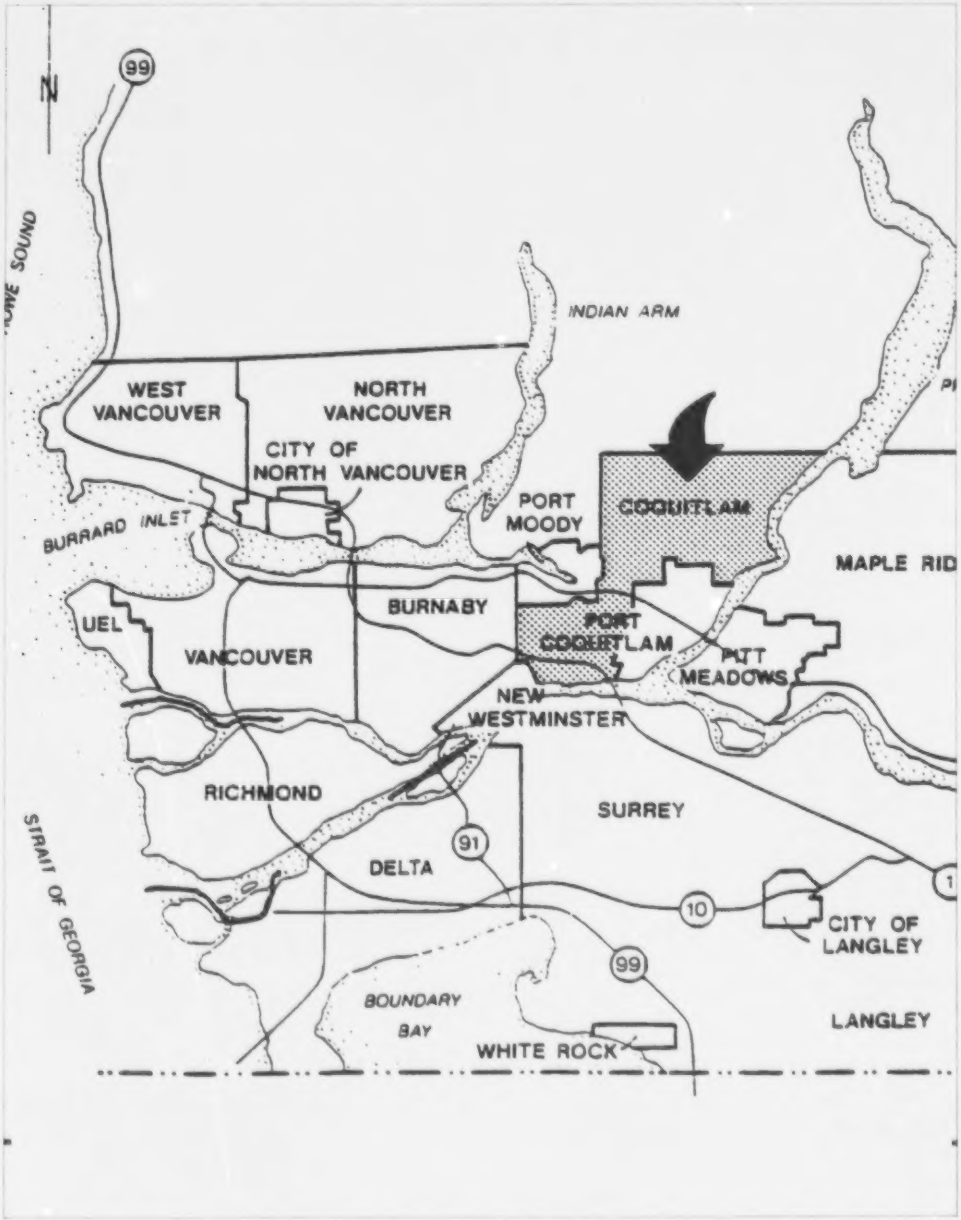
When a property as large as the Westwood Plateau site is offered for sale, the vendor must decide how to market the property to achieve the best value. One of the key decisions is whether a better price can be obtained by selling the property as a single parcel or by subdividing it into several smaller parcels. Several factors must be considered in making this choice, including whether there are potential buyers for the property if it is offered in one parcel, whether smaller lots will attract an overall higher price, whether the time required to subdivide the land is available, whether the costs involved with subdivision will be recovered, and whether the price of real estate will have risen or fallen over the period of time required to subdivide the land.

When developing its marketing strategy, the committee felt that its mandate did not restrict it to selling the property in one parcel. It therefore reviewed the advantages of selling the property in several parcels.

We assessed in our audit whether the committee explored this

FIGURE 3.8

Site of the Westwood Plateau property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RICHMOND
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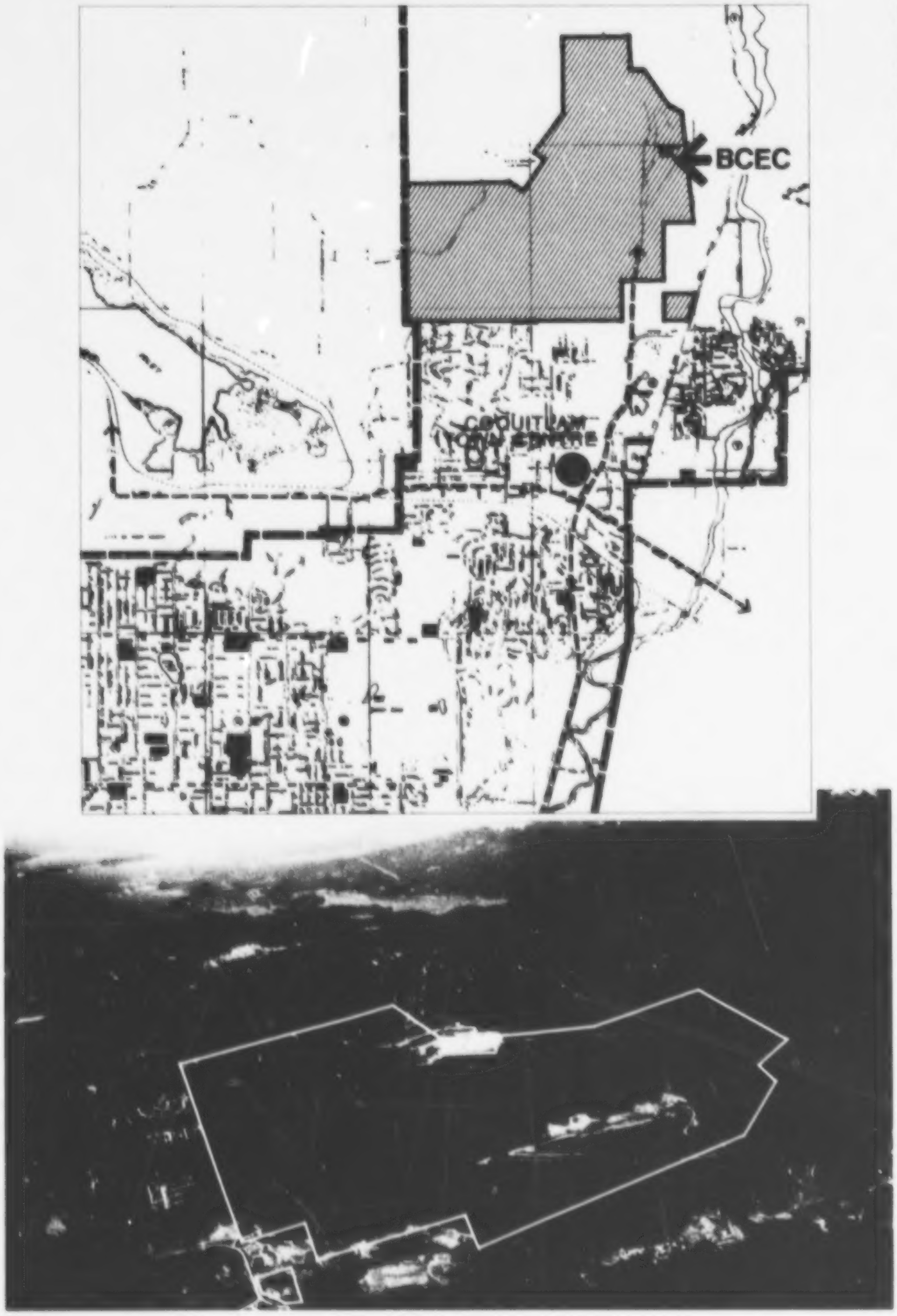

BCEC
COQUITLAM TOWN CENTRE

FIGURE 3.8

Site of the Westwood Plateau property

issue sufficiently. We found that it was thorough in its examination of various marketing strategies, and that it based its decision to sell the land in one piece on the belief that:

- the property had to be sold by the government's March 31, 1989 deadline for closing down the corporation;
- the development agreement with Coquitlam would have to be renegotiated if the property were sold in parcels;
- there were too many technical problems with the installation of services in a multi-parcel development;
- a single buyer would be willing to pay a premium for acquiring control over the site; and
- the time was right to take advantage of the strong real estate market.

Despite the significant care given to this analysis, we think these beliefs underlying the committee's decision to sell in one parcel were not substantiated in all cases.

The committee felt it was under some time pressure to sell the land because it believed the sale had to be completed before March 31, 1989, the date the corporation was to be closed down. It also assumed that the development agreement with Coquitlam would have to be renegotiated if the land were subdivided. That, together with the time required to prepare the subdivision plan and get it approved, would have delayed the sale for three to six months. As the committee only started its deliberations in October 1988, there was some question about whether subdivision was a feasible alternative before the end of March 1989; (Note: the corporation did not in fact cease operations until September 30, 1989).

Although the committee believed that the development agreement with Coquitlam would have to be renegotiated if the property was sold in parcels, our findings did not support that position. From our review of the agreement and discussions with officials of the District of Coquitlam, we believe the agreement was sufficiently flexible to allow multi-parcel sales.

In October 1988, the committee examined the possibility of dividing the lands into smaller parcels and selling them individually. One of the criteria used by the committee in this analysis was that any smaller parcels created should be capable of being developed independently. Each property would therefore need to have utilities provided separately.

One option was to sell the lands according to the 11 legal titles that existed at that time. However, the committee did not believe that marketing the lands under existing legal titles would be advantageous because the titles did not follow any natural boundaries that would make installing services practical, and so the parcels would not have been attractive to potential purchasers.

The topography of the Westwood Plateau property makes it particularly difficult to develop. The land is sloped and is not accessible from all sides. This makes the installation of services difficult and poses problems for the simultaneous development of individual parcels. While these obstacles are imposing, we do not believe they were so significant as to negate the need to consider fully the various alternatives for developing the property.

Although the committee believed technical problems precluded it from pursuing several other subdivision options, it did consider that the lands could be subdivided and sold in three smaller parcels. However, it also concluded there were no significant benefits to doing so. It believed that three buyers would pay no more in total than a single buyer.

The issue of subdivision was addressed again in January 1989, when the option of splitting the lands into two parcels came up, one to be sold at that time and the other to be transferred to the government and held for six years before selling. The committee, after preparing appropriate financial models, concluded that land banking was not part of its mandate. Because of that, and the technical problems noted above, the alternative was not pursued.

In such a large real estate undertaking, we expected that detailed financial analyses of all the sales options would have been prepared. This was not done, and although the final outcome of the deliberations might not have changed, we believe the committee would have been prudent to prepare such analyses for each of the options at the time the decision was made to sell the land in one parcel. Without this information, decision-makers did not have all the details needed to evaluate thoroughly the value-for-money consequences of their decision.

The Marketing Plan

We found the information package provided by the committee to parties interested in purchasing the property was comprehensive and gave them sufficient pertinent information to enable them to submit proposals. In addition, the sale was advertised broadly enough to ensure that potential buyers were informed of the sale.

The committee decided to market the site by requesting proposals from interested parties. It prepared an information package, which was made available on December 14, 1988, for a nonrefundable application fee of $500. The information contained all the engineering, planning, and market details required for interested parties to prepare knowledgeable offers on the lands offered for sale, and it outlined the selection criteria, along with the timing and process for proposal evaluation and selection. The package also stipulated that each purchase proposal submitted be accompanied by an unconditional, irrevocable letter of credit in favor of BCEC for $500,000.

The following objectives for the sale were explained in the information package:

> . . .the whole of the Westwood Lands be sold for fair present value through an open and competitive process to a purchaser, who may be a consortium or a group, that has the financial capacity and expertise to ensure the residential subdivision development and marketing of the Westwood Lands with local industry participation, at an absorption rate consistent with prevailing housing demand. The development agreement governs the development of the Westwood Lands.

The sale was advertised locally and nationally on December 14, 1988, and on January 18, 1989. A direct mail program to the development community and to parties who had previously expressed interest in purchasing land from the corporation was also undertaken. In total, 70 information packages were purchased.

Because of the interest in the property, the initial deadline for the submission of bids was extended from February 8, 1989, to March 10, 1989, to give proponents more time to prepare their bids. By the second deadline, 18 proposals were received.

Evaluation of the Proposals

In our opinion the evaluation process was adequate. It ensured that all relevant information was used to determine which proposal would yield the best return to the Province, at the lowest risk. Accordingly, cabinet was provided with sufficient information to enable it to evaluate the merits of the proposals and to conclude that the offer it accepted was the most beneficial one received.

The committee established the approximate market price of the Westwood Plateau development site by obtaining an appraisal from an independent firm of accredited appraisers. The land was appraised as a single parcel for its highest and best use under the Community Plan and the Development Agreement. The appraised value of the site at February 15, 1989, was between $47.8 and $51.7 million.

Subcommittees were established to ensure that the various steps in the evaluation process were adequately controlled. These steps included opening and logging in proposals; calculating the present values of the proposals; reviewing the financial capabilities of the proponents; selecting the proposals considered satisfactory, and selecting the lead one; and negotiating with the lead proponent.

When the proposals were received, they were logged in, copied and stored off site. To ensure the integrity of the evaluation process, individuals evaluating the bids were provided with copies of the proposals, which had the names of the proponents obliterated.

The proposals received differed in many aspects. Some offered no cash payments and were based strictly on profit participation, others offered full cash payment upon closing. The remaining proposals offered a combination of cash and profit participation.

To establish the relative worth of the bids, the proposals were analyzed according to measurable and comparable information. The analysis recognized the time value of money, and evaluated the risks involved with each proposal and all of the terms and conditions which had a financial impact. The analysis also considered the certainty and security of proposed payments, and the extent to which proposals addressed the objectives and terms as set out in the request for proposals. These terms called for:

- a large down payment;
- a proposal which constituted an actual purchase, as opposed to continued involvement by the Province;
- a limited deferment of payment and proper security for any deferred payment schemes; and
- a commitment to participation by the local industry.

From this evaluation, a shortlist of the most acceptable proposals was prepared, the lead proponent was identified, and board approval was obtained to negotiate the final details of an agreement for sale with the lead proponent.

The Lead Proponent

Double Alpha Holdings Corp., a subsidiary of Wesbild Enterprises Ltd., was identified as the lead proponent. The Committee concluded that the $63 million all-cash offer was the most beneficial proposal received. Some proponents indicated that they might provide a higher long-term return to the Province, but they would have required long-term participation by the Province and were subject to higher risk.

On May 10, 1989, the approval of the government was obtained to negotiate and conclude an agreement with Double Alpha Holdings Corp. The final agreement was approved by the Board of Directors and Cabinet on May 24, 1989. The sale was completed on June 30, 1989, at which time the full purchase price was paid.

The Price Paid

The purchase price for the property was $63 million, payable in cash. After certain obligations assumed by the purchaser were deducted, as specified in the Request for Proposals document, and various other adjustments made, the net cash proceeds from the property amounted to $61.3 million. Since the book value of the property was $7.2 million, the corporation recorded a profit of $54.1 million on the sale.

Government Representations About the Sale

In our opinion the government made fair representations about the sale of the Westwood Plateau lands.

The government disclosed the details of the sale of Westwood

Plateau lands by way of press releases throughout the sale process. In December 1988, the request for proposals was announced. Further announcements were made as the sale progressed. The name of the successful bidder, as well as the purchase price of $63 million, was made public on May 30, 1989. On July 4, 1989, a final announcement was made regarding the completion of the sale.

The sale of the Westwood Plateau property generated considerable public interest. For reasons of confidentiality, the government chose not to disclose publicly the identity of the bidders or the details of the bids. Although it had requested permission from the 18 bidders to make the bids public, only 10 gave their permission, and so the government decided not to disclose the bids or the identify of the bidders.

Looking Ahead

During the last few years, the government has sold a large number of land holdings. Each major sale has generated considerable public attention. Concerns have been expressed as to whether the process used by the government in these and other sales has been appropriate, and whether the government is getting fair value for the lands. In the section of this Annual Report titled "Acquisition and Disposition of Land" we report on the results of an audit which was designed to address those concerns.

Response of British Columbia Enterprise Corporation Privatization Advisory Committee

Introduction

This section represents the Committee's response to the value-for-money audit report prepared by the Office of the Auditor General on the sale by British Columbia Enterprise Corporation of the Westwood Plateau Lands in Coquitlam.

The Committee has cooperated fully with the audit team, and with one exception, is satisfied with and supports its findings.

The audit team concluded that:

1) the information given to interested parties was comprehensive and advertising ensured that the information would reach potential buyers.

2) the information package contained the selection criteria along with the timing and process for proposal evaluation and selection.

3) 70 information binders were purchased by potential purchasers and 18 purchase proposals were received.

4) the evaluation process adequately ensured that the Cabinet received sufficient information to enable it to evaluate proposals and to conclude that the offer it accepted was the most beneficial that was received.

5) the evaluation process was adequately controlled.

6) the proposals were analyzed based upon measurable and comparable information and recognized the time value of money.

7) the purchase price of 63 million dollars payable in cash exceeded the land's book value by some 54 million dollars and exceeded the independent appraisal value by 11 - 15 million dollars.

8) the government made fair representations about the sale of the Westwood Plateau lands.

The audit team found consistent evidence of a variety of processes, controls, checks and balances which kept the sale process on track from start to finish. The Committee is pleased that its efforts and the efforts of the British Columbia Enterprise Corporation staff have produced this form of endorsement.

One area where the audit team and the Committee do not share common ground is the audit team's insistence that the Committee should have produced financial models to project revenues that might have been generated if the land was sold in smaller parcels. It is on this aspect of the audit report that the Committee feels compelled to respond.

The Audit Conclusions

The audit report dwells at considerable length on the fact that the Committee recommended the sale of a single parcel without testing various hypothetical *financial scenarios based on some form of further subdivision of the lands prior to sale.*

Full recognition is given by the audit team to the seriousness with which the Committee considered this issue, and to the Committee's reasons for concluding as it did that a single parcel sale was the only viable option.

However, the final conclusion reached by the audit team is that the Committee's judgment was based on beliefs that were not substantiated in all cases. The audit team reached its conclusions after conducting such inquiries and research as circumstances allowed and the team saw fit.

Regrettably and ironically, there is little, if any substantiation in the audit report for the contrary conclusions reached by the audit team. The Committee acknowledges that there is room for differing opinions on an issue such as this. There is an argument to be made, however, that the audit team is in effect substituting its judgment for that of the Committee. This is troublesome to the Committee in view of the audit team's understandably limited opportunity for indepth analysis and perception of this issue.

However, this particular issue is one which receives a great deal of public attention, and undoubtedly produces more public confusion and misconception than most other issues relating to the sale of Crown lands. Accordingly, it is imperative that the Committee completes the record by outlining why the single parcel sale approach was chosen in the Westwood disposition program without producing financial models for other alternatives.

Westwood Marketing Strategy - One Parcel or Multiple Parcels?

The Committee reviewed the issue of a single parcel sale versus the sale of multiple parcels in a number of Committee meetings spanning a two and one half month period. The considerations included a review of the Development Agreement, thorough canvassing of the feasibility of subdivision with staff, legal, engineering and planning consultants, as well as Coquitlam municipal elected officials and staff.

Clearly the sale of Westwood as one parcel would create considerable controversy and would be subject to careful scrutiny. The Committee was also aware that if a multi-parcel sale was feasible, it would allow more developers into the Westwood development process. Accordingly, the Committee reexamined the possibility of sale of multiple parcels again and again. Each reexamination produced the same conclusion, that the development of the land should be orchestrated by a single entity. Reasons included the nature of the Development Agreement, the experience in prior negotiations with Coquitlam, terrain-related servicing issues, market and timing considerations, and the mandates of the corporation and the Committee. Because this decision and the underlying reasons are the critical elements in this response, they are elaborated on below.

The Committee decided unanimously that it would be a regressive step to move from single management of the development to multiple management. Multiple management must not be confused with multiple ownership. Both the Committee and the Municipality *encouraged multiple ownership through a consortium, which would have allowed for single management. The audit team will have noted from the records that there were in fact proposals submitted by consortia. In view of the strong and unanimous conclusion of the need for continued single management, the committee felt that the production of financial models on the assumption of multiple ownership (which would have allowed multiplicity of management) would have been superfluous. Additionally, a model requires prediction of a great number of variables. This is particularly true in a large, complex parcel like Westwood when multiple ownership is being considered. There are simply too many uncertainties for a model of this type to have any useful purpose in the decision making process.*

Some of the more important considerations that led to the Committee's conclusion and which substantiate that conclusion are as follows:

1) *The planned development of the lands had been based upon single management and at this point was in its sixth year along the critical path. Multiple operations would inevitably have brought pressures to modify planning and the servicing infrastructure which would have resulted in substantial additional costs. The experienced developer would be well aware of this and discount his bid accordingly.*

2) *The existing Development Agreement with the Municipality had been drawn after years of negotiation on the premise of single management and single fiscal responsibility. With multiple ownership this would have meant, at the very best, re-negotiation of a "master" development agreement, or what is more likely, the negotiation of individual agreements with individual owners which, in the considered opinion of the Committee, would have created many problems and delays in the development process. Several meetings and discussions with District of Coquitlam officials made it clear to the Committee that a multi-parcel sale would require renegotiation of the Development Agreement. The present Development Agreement did not address a number of issues which would have arisen in a multi-parcel sale. These include the number, size and shape of parcels to be created, the location and allocation of the housing mix within each parcel, allocation of off-site servicing responsibility among parcels, posting of security for services, potential duplication of infrastructure and convenants to ensure that each parcel would receive adequate services and access to its boundary in a timely manner. Notwithstanding the audit team's contact with certain Municipal Officials, the Committee does not understand, and the report does not seem to explain, how the audit team reached its conclusion that no renegotiation of the Development Agreement would be required and that the Agreement as it exists was sufficiently flexible to accommodate a multi-parcel sale.*

3) *The supply of serviced land for affordable housing in the Lower Mainland is a problem, and as a result the price of serviced lots is increasing dramatically. In the opinion of the Committee it was most important to maintain the production momentum already achieved in Westwood, since it was by far the largest potential supply of land for this purpose. Development*

momentum would almost certainly have been subject to dislocation through multiple ownership attempting to operate independently. As it now stands, there is every reason to expect that the successful proponent will continue expeditiously along the critical path identified by BCEC and quickly bring to the market a substantial number of serviced lots.

4) *The Committee had every reason to believe from past experience that the Government may have also found itself involved as a back-up financial guarantor for the installation and construction of certain major servicing and amenities as a result of its assumed responsibilities under the original Development Agreement if no one developer had overall responsibility for development of the plateau.*

The Committee is of the opinion that financial models are only useful if they can assist in reaching the right conclusion. Because of the many considerations already stated, the Committee had no doubt whatsoever that single parcel marketing was the only rational way to sell the Westwood lands. Thus the production of financial models to evaluate one or more hypothetical multi-parcel sale options would have been an exercise without a purpose. Since there has been no conclusion that the actual single parcel sale decision was not the correct one, the saving in time and money in not commissioning further financial models could reasonably be to the Committee's credit rather than being regarded as a shortcoming.

The Committee attempted to operate within its mission statement and the Corporate mandate as much as possible. However, time constraints related to the mandate and the Corporation's anticipated wind-up date were not the principal reasons why the Committee selected the single parcel sale option in the Westwood process. This is supported by the fact that the Committee was not reluctant to recommend further subdivision or other value enhancements for other projects on which it was advising, notwithstanding that the recommendation might require a process which did not coincide with wind-up and mandate time constraints. The Songhees and Tilbury projects were each marketed in several parcels. Subdivision activities are continuing on the Whistler Expansion Lands. Westwood Plateau represents the only project under Committee auspices which was sold as one large parcel to one purchaser. The reason, very simply, is that all the circumstances surrounding the Westwood lands led the Committee, in its collective wisdom based on the experience and knowledge of its members, to the certain and unanimous conclusion that it should be sold in its then present condition without further subdivision.

It is interesting to note that the official community plan, adopted by the District of Coquitlam after extensive public input, appears to have reached the same conclusion with respect to Westwood Plateau in paragraph 3.2.3 on page 16:

> *"The fact that the land is in one ownership, except for several privately held parcels at the southeast corner of the Plateau, should make it possible to build a better residential environment."*

The audit team acknowledged specifically the government's decision not to be involved in an activity that had a high risk for the taxpayer. The Committee concluded that further subdivision in the circumstances represented an unacceptable risk.

The audit team concluded that without the financial analysis of each subdivision option, the decision makers did not have all of the information necessary to evaluate the value-for-money consequences of their decision. For the reasons outlined in this response, it is the Committee's view that the decision-makers had all relevant information necessary to make an informed decision.

Conclusion

The Committee is pleased that the various processes adopted in the sale fully satisfy the stringent audit tests employed by the Office of the Auditor General.

The one issue on which the audit team and the Committee differ is not a matter which is capable of final resolution in this response. However, the Westwood sale produced a most desirable result for the taxpayer. A very substantial and high risk asset was privatized for a cash amount which far exceeded all value indications available immediately prior to the sale.

Acquisition and Disposition of Land

A review of the process followed by ministries and Crown corporations in buying and selling land

Audit Purpose and Scope

We conducted this audit to assess whether the processes established by the Province to acquire, administer, and dispose of real estate properties ensure that value for money is achieved. We also carried out tests to determine whether these policies and procedures were being followed. For the purpose of this review, the attainment of value for money was centered on whether ministries and Crown corporations buy and sell properties at a fair price.

We included in our review the ministries of Crown Lands, Forests, and Transportation and Highways, and as well British Columbia Buildings Corporation (B.C. Buildings), British Columbia Ferry Corporation (B.C. Ferries), British Columbia Hydro and Power Authority (B.C. Hydro), B.C. Pavilion Corporation (B.C. Pavilion), British Columbia Railway Company (B.C. Rail), and British Columbia Transit (B.C. Transit).

Land transactions of the British Columbia Enterprise Corporation have been excluded from this review. As part of our audit of privatization this year, we reviewed the sale of the corporation's Westwood property in Coquitlam. The results of that review are reported in a separate section of this Part of our Annual Report. The corporation ceased operations on September 30, 1989 and its remaining assets have been transferred to the Ministry of Crown Lands.

Our review focused on the processes used to acquire and dispose of properties within the 12-month period ended October 31, 1989.

Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We concluded that the processes for buying and selling real estate properties established by the ministries and Crown corporations that we reviewed are appropriate for achieving value for money. Additionally, we found that the established policies and procedures were followed during the period under review.

We also found that the ministries of Crown Lands, and Forests, and the Crown corporations included in our review maintained readily accessible inventories of the properties they held. Management has indicated to us that these inventories are complete. We considered it impracticable to carry out tests to verify the completeness of these inventories.

At the time of our audit, although the Ministry of Transportation and Highways had information on its land holdings in various files, this information was not organized into an inventory listing that made it easily accessible and capable of periodic review. As a result, the ministry has been unable to provide the Ministry of Crown Lands with the information it requires to complete its inventory of lands held by all ministries of government. The Ministry of Transportation and Highways is currently in the process of designing a computerized property inventory system.

We found that not all of the entities included in our examination conduct regular reviews to identify surplus land that should, according to government policy, be offered for sale. Consequently, while the processes of the entities we reviewed should ensure that property is bought and sold at a fair price, there is not certainty that all surplus properties will be offered for sale on a timely basis.

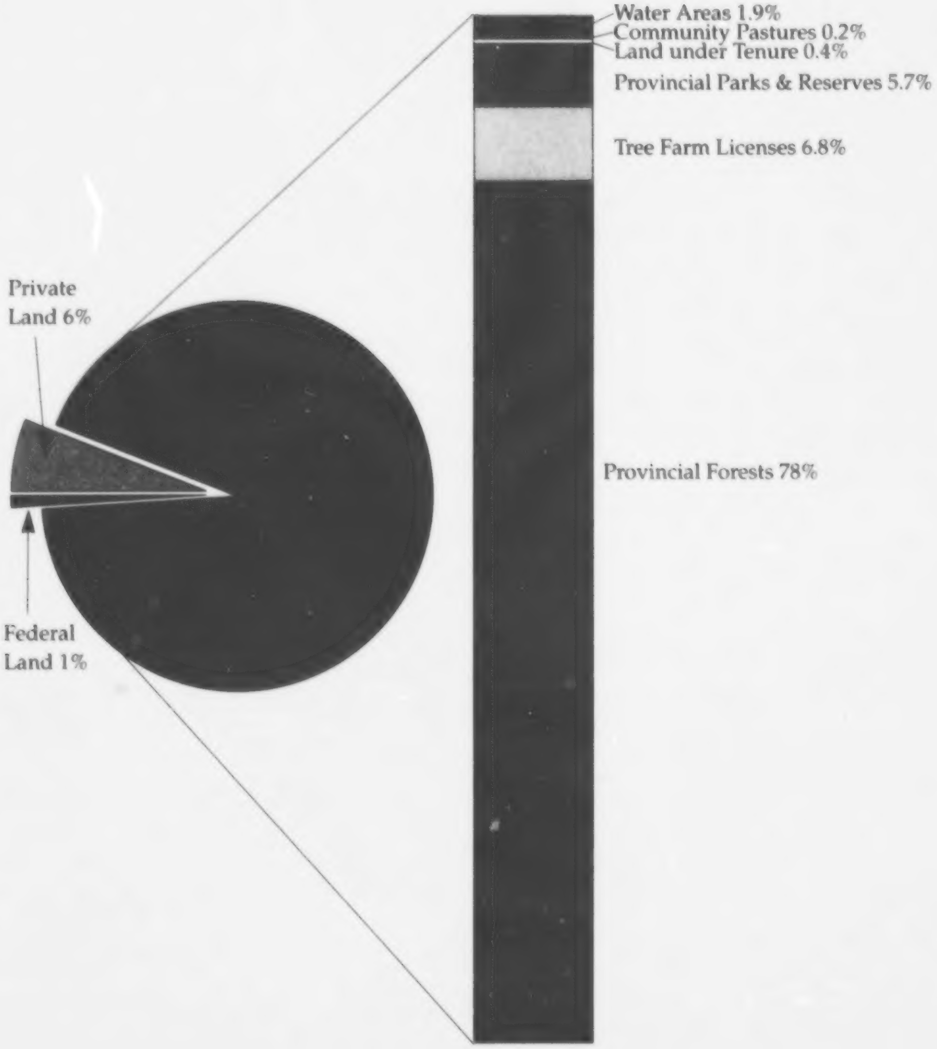
Distribution of Land in the Province

British Columbia has approximately 93 million hectares (230 million acres) of land and 1.8 million hectares (4.4 million acres) of water (a total of 94.8 million hectares). Approximately 93% of the land is provincially owned, 6% privately owned, and 1% federally owned. Federally owned land includes national parks, Indian reserves, and military installations. All land that is not either owned privately or owned by another government belongs to the Province. The majority of provincially owned land is unsurveyed and mostly covered by forests (Figure 3.9).

To carry out its programs, the government must sometimes acquire land. It also sells land not specifically needed for government programs. The government acquires, administers, and disposes of land through ministries of government and Crown corporations. The authority to acquire and dispose of land is governed by various statutes. The method of acquiring, administering, and disposing of these lands is set out in the policies and procedures of the ministries and corporations.

FIGURE 3.9

Distribution of Land In British Columbia



Transactions

During the period under review the ministries and corporations purchased land worth $38 million and sold land worth $123 million (Table 3.1).

TABLE 3.1

Summary of Land Transactions, November 1, 1988 to October 31, 1989

	Acquisitions		Dispositions	
	Number	$ 000	Number	$ 000
B.C. Buildings	10	237	51	9,013
B.C. Hydro				
Sale of Head Office[a]			1	56,000
Other transactions	10	1,551	60	17,628
B.C. Rail (consolidated)	19	257	15	1,329
B.C. Transit	12	2,099	12	12,069
B.C. Ferries	-		-	
B.C. Pavilion	-		-	
Ministry of Crown Lands	21	4,819	964	26,654
Ministry of Forests	-		-	
Ministry of Transportation and Highways	780	29,111	-[b]	
	852	38,074	1,103	122,693

[a] Sale of B.C. Hydro and Power Authority Head Office.

This single transaction accounted for approximately 46% of the total value of all sales during the review period.

Before advertising the property for sale, Hydro obtained appraisals from two independent accredited appraisers. The market value was estimated at between $46 million and $48 million. The proposed sale was widely advertised throughout Canada and in prominent U.S., European, and Asian financial papers. Three proposals were received. The value of the accepted proposal was the highest of the three and exceeded the appraised value submitted by both appraisers.

B.C. Hydro leased the premises back from the purchaser. Both appraisers were requested to review their appraisals based on the actual lease-back terms. As a result, the building's appraised market value was increased to between $51.5 and $53.5 million which is still lower than the price received.

[b] Land dispositions are made through the Ministry of Crown Lands.

Title

In this report we only refer to land. However, this includes both unimproved land and land with improvements, such as buildings or roads. In legal records, only a description of the land is entered and this automatically includes all improvements.

When the province registers title to land it does so in the name of Her Majesty the Queen in Right of the Province of British Columbia. Land owned by Crown corporations is registered in their names and recorded in the Land Titles Office, as is all privately owned land.

In addition to the land acquisitions described below, the Province owns all land that has not been previously deeded to some person, corporation, or other government.

Policies and Procedures

The Process

The policies and procedures of the ministries and Crown corporations outline the process to be followed in acquiring, administering, and disposing of land. They define the procedures to be followed in determining when land is to be acquired or disposed of, how the transaction will occur, the price to be paid or received, and set levels of authority for approving the decision.

Findings

The ministries and corporations either have issued or are in the process of issuing policies and procedures which have been designed to ensure a fair price is paid or received in all land transactions. The level of detail in the policies and procedures varied between entities, but, in all cases, is appropriate to achieve value for money. Furthermore these policies and procedures are understood and followed by the employees responsible for the purchase and sale of land.

Acquisitions

The Process

When ministries and Crown corporations prepare long range plans, or plans to achieve a particular objective, the need for specific parcels of land or land in specific areas is identified. To achieve these plans, the Province may have to acquire privately or municipally owned land. This is accomplished through:

- negotiated agreement with the owner;
- provisions of the *Forest Act* permitting the Ministry of Forests to acquire land to be used for rights-of-way; or
- expropriation.

A major principle of the policies in both the ministries and the corporations is that land be acquired at a fair price. A fair price is defined as the market value based on the highest and best use of the land as determined by an independent accredited appraiser, a qualified employee, or the Expropriation Compensation Board.

Acquisition by expropriation can only be used where authorized by legislation and the procedure to be followed is governed by the *Expropriation Act*. Even when the right exists, expropriation is only used as a last resort when there is no suitable alternative land and the province is unable to negotiate a purchase agreement with the owner.

The Province may also acquire land through:

- exchanges (one site is exchanged for another of equal value);
- gifts (the owner gives the land to the Province);
- Crown grant reversion (title to land no longer used for the purpose for which it was free-granted reverts to the Province);
- transfer (from other governments); or
- forfeiture (for unpaid realty taxes).

Findings

We found that the processes in place for the acquisition of land are appropriate to achieve value for money.

In all cases, land was acquired for specific purposes. The price paid was either the market value or an amount reasonably close to the market value as would be expected in a negotiated agreement. In most cases the market value was determined by an independent accredited appraiser.

When property was acquired which was subject to expropriation, the province often made additional payments as specified by the *Expropriation Act*. These payments compensated owners for disturbance damages and other expenses.

Inventory

The Process

The Ministry of Crown Lands has been given legislative authority to administer all Crown land except land specifically under the administration of other ministries or Crown agencies.

The Province owns and administers many types of properties. Some are administered directly through ministries; others are indirectly owned and administered through Crown corporations.

In addition to office buildings for their own use and land held for future needs, Crown corporations own and administer some of the following major types of properties:

B.C. Buildings

Office buildings used by government ministries; provincial court buildings; and provincial jail buildings. The Legislative buildings and the Lieutenant Governor's residence are owned directly by the Province but maintained by B.C. Buildings.

B.C. Ferries
Ferry docks.

B.C. Hydro
Dams and power generating stations.

B.C. Rail
Railway stations and roads.

Land under the administration of ministries, other than the Ministry of Crown Lands, includes highways, forests, parks, ecological reserves, and wildlife management areas.

The ministries and corporations maintain records of the land they own. The Ministry of Crown Lands currently has a listing of all Crown land that has been conveyed to private ownership and of all private land that has been turned over to government, except highway rights-of-way. In October 1989, Treasury Board issued a directive requiring all ministries to record their real estate holdings in the Crown Land Registry of the Ministry of Crown Lands. The Crown Land Registry will, therefore, eventually list all Crown lands in the province.

Findings

We found that not all inventory lists are complete and, in some cases where lists exist, they are not being reviewed on a regular basis. As a result, surplus land may not be identified and offered for sale. The existing process does not, therefore, fully achieve value for money.

The Crown corporations and the Ministry of Forests have listings of their properties. The Ministry of Crown Lands currently has a listing of:

- all Crown land that has been conveyed to private ownership through that ministry;
- all private land that has been turned over to government through that ministry; and
- some of the surveyed and unsurveyed land that has never been conveyed.

The lands administered by other ministries and the balance of surveyed land that has never been conveyed has to be added to this list. Large areas of unsurveyed land cannot realistically be added to an inventory.

These lists are being reviewed with varying degrees of regularity by the various entities in order to identify surplus land. To the extent that these lists are incomplete or not reviewed on a regular basis, all surplus land will not be identified and made available for sale. We recommend that all inventory lists be completed and reviewed on an ongoing basis to identify any surplus land.

Dispositions

The Process

Land that has been identified as surplus to the Province's or corporations' needs is offered for sale if a market is considered to exist. Land becomes surplus when:

- it is no longer needed for the purpose for which it was acquired;
- the scope of the project is changed and less land is required; or
- pieces are left over after more had to be acquired than was needed. When land is acquired for a particular objective, the Province — to be fair to the owner — may acquire the entire property even when it is greater than actually needed, since acquisition of just the required portion might leave the owner with a parcel that does not suit his needs.

Also, any land that the public or other governments wish to purchase will be sold if it is available.

Before October 1989, the Ministry of Crown Lands and predecessor ministries with similar authority sold most of the surplus land disposed of by ministries. Since then, all land surplus to ministry needs must be transferred to the Ministry of Crown Lands and, therefore, all land must be sold through this ministry. Crown corporations, on the other hand, sell their land themselves.

The principle of a fair price also applies to the sale of land. Most land is sold at market value. Some, however, is sold under the terms of an option to purchase in a lease; and some is free-granted or sold for nominal amounts, usually $1, plus other considerations such as an exchange of lands of equal value, or transfers to Crown corporations.

Free Crown Grants

Free Crown grants are used to give title to the recipient free of charge. The use of free Crown grants is restricted. Generally, they are made to railways or towns, municipalities, societies, and boards for public use, with the provision that title will revert to the Province if the land is not used for the purpose for which it was specifically granted. The general public are not entitled to receive free Crown grants.

Sales

To promote the development of agricultural lands in certain locations, the government has issued leases on undeveloped land. The leases contain an option to purchase, at a fixed price, if the lessee develops a stated percentage of the leased land at his own cost.

The stated purchase price may be reduced by a clearing credit of $750 per hectare to a maximum amount equivalent to the stated purchase price. Therefore, should the lessee exercise the option to purchase, the price paid may be quite different from the market value of the land at the time of the sale. This difference may be due to the clearing credits, and the fact that the purchase price stated in the lease is the market value of the land at the time the lease agreement was entered into.

Land, other than free grants or land sold under the terms of an option to purchase included in a lease, is sold through a public process with few exceptions. The exceptions are:

- leased shore land or residential lots where the lessee is permitted to purchase the site. Because of the high administrative costs associated with administering these leases, government policy now permits the lessees to purchase the lots.

- small adjoining sites which, because of their size, are only of value to an adjoining lot holder. Generally, the sale agreement requires these lots to be consolidated into one lot with the purchaser's existing lot.

- properties sold under direct application under the *Land Act*.

In all cases the sale price is the market value of the land.

In most cases, market value based on the highest and best use of the land is determined by independent accredited appraisers but may be determined by qualified employees, particularly for lower-valued properties.

The land may be offered for sale by way of:

- public offering, which can take either one of two forms:
  - the public is invited to submit sealed bids which have to conform to certain criteria if they are to be considered; or
  - bidders are invited to submit a proposal outlining both the use and purchase price of the land;
- public lot draw, which is the initial offering of residential or recreational land at its market value;
- public auction;
- direct sale or listing with a real estate broker. Crown lands are only listed with brokers after the land has been offered for sale through a public offering or proposal call, and they are generally MLS listings; or
- direct sale as a result of an application under the *Land Act*. These properties are normally advertised to ensure public interest is identified.

Proposal calls are usually used for large properties which may serve a variety of purposes. Determination of the use is left to the proponents.

The Province has now adopted a policy of not developing land. Large lots may be subdivided into smaller ones or a group of small lots consolidated into larger ones if this will result in higher revenue to the Province. In some instances it may be necessary to construct roads before the land can be sold. Titles are checked to ensure that no unusual encumbrances or reserves are registered against the land which would affect the new owner's rights and use of the land. The land is then sold "as is." The rationale for this principle is that the province is not in the land development business and therefore should not assume the risks associated with land development.

Monies received from the sale of land by the Ministry of Crown Lands are credited to the Crown Land Account, while those received by Crown corporations are credited to their accounts.

Findings

We found that the processes in place for the disposition of land are appropriate to achieve value for money.

There are active programs to sell surplus land. Sales have been well advertised, with major properties being advertised nationally and in some instances internationally. The provincial policy of not developing land has been followed. However, appropriate steps, such as consolidation of lots, have been taken to increase the value of the land being sold.

In addition to surplus land, the Ministry of Crown Lands has also sold:

- agricultural land leased with an option to purchase;
- Crown land that was never previously sold; and
- shore land properties. In response to a government directive, lessees were offered the option to purchase their lots. All sales were at market value, determined by an independent accredited licensed appraiser.

In many instances, lessees have been able to purchase their leased agricultural land for nominal amounts after deducting the cultivation credit of $750 per hectare. The Province has ceased issuing agricultural leases pending a review of the existing policy.

The policies do not cover all possible variations that occur in negotiating the purchase or sale of land. However, we found that whenever the policy did not cover the particular circumstances of a transaction, the principle of a fair price was followed.

During the review period there was a total of 105 free grants and transactions recorded at a nominal value (Table 3.2).

TABLE 3.2

Summary of Free and Nominal Value Grants, November 1, 1988, to October 31, 1989

Free Crown Grants	
Crown corporations, municipalities, schools, and hospitals	45
Railways	41
Land exchanges	11
Grants related to privatization[a]	6
Joint venture between Province and private corporation[b]	2
	105

[a] The six grants were for property transferred to Pacific Regeneration Technologies Inc. as part of an asset sale agreement with a total price of $5 million.

[b] The Province entered into an agreement with Genstar Corporation on April 24, 1985, to jointly develop and sell lots located on land owned by the Province in the Municipality of Pitt Meadows. The Province contributed the land to the venture and will share in the profits when the lots are sold.

Follow-Up of Previous Year's Value-for-Money Audits

At the conclusion of each value-for-money audit, we provide those responsible for managing the program or function audited with an opportunity to respond to our audit reports. These responses are published in our Annual Report, along with our audit assessments. However, it takes time to implement the recommendations that arise from value-for-money audits. Therefore, when ministries initially respond to our reports just after the audits have been completed, they frequently are only able to indicate their intentions to resolve the matters raised by our audits, rather than their actions to do so.

Due to the nature of value-for-money audits and the matters raised during them, we usually only follow up on these audits when the next audit of the area is undertaken. Without further information, legislators and the public are not aware of the nature, extent and results of managements' remedial actions. Therefore we believe it is useful to obtain and publish updates of managements' responses to our previous value-for-money audits.

The following written comments were received in reply to our invitation to publish further updates from the ministries that were the subject of value-for-money audits last year.

Follow-Up from Ministry of Government Management Services

The Auditor General's March 1989 Annual Report included value-for-maney audit reports concerning the Privatization Program

Throughout the past year, the government's privatization program continued using the framework established during the initial stages of the program. The broad policy goals stated for the program at its outset remain unchanged. They are to:

- *encourage employee ownership;*
- *provide continuity of work for government employees;*
- *ensure public safety and quality of service;*
- *support regional economic development*
- *treat all parties fairly.*

The ministry's response to the 1989 Auditor General Annual Report examined the audit findings within the context of these broad policy goals. It also qualified and provided further elaboration on specific audit findings where the ministry believed this was required for a complete understanding of the issues involved.

The ministry indicated that the selection process would be amended to include an assessment of ways to increase the value of projects during the detailed evaluation phase. A Privatization Manual has been developed and distributed to all ministries. In the section dealing with privatization plans, it requests ministries to review the potential for consolidating and restructuring prior to identifying privatization possibilities. In addition, this type of assessment has formed a regular component of the analysis done by any group evaluating a potential project.

The ministry also undertook to ensure that RFP's were prepared prior to discussions or negotiations with employee groups and this has been done in most cases. For employee-initiated proposals, however, although employee groups have received all information normally contained in an RFP, it has not necessarily been formalized as an RFP document.

The ministry indicated that continuing attention would be given to refining the procedures used to identify, implement and monitor privatizations. In this regard, the ministry has remained aware of its responsibility to obtain a fair deal for taxpayers and has acknowledged its responsibility to revise procedures if better means of achieving this objective were identified.

The ministry also recognized the importance of good contract management and monitoring once service contracts were implemented. As a result, a Contract Management Task Force was established to recommend cross-government policies and guidelines for managing and monitoring government contracts.

It was also stated that special care would be taken to ensure that the stated process would be followed in all projects and the Legislature would be provided with reliable and complete information on all privatizations in accordance with the normal accountability cycle established for government.

The Privatization Manual assists ministries by clearly outlining all policies and procedures related to privatization. In addition, staff of the Privatization Group have provided ministries with advice and assistance regarding the privatizations process. Individual ministries, however, have been accountable for ensuring that these procedures have been followed and that the Legislature has been provided with the appropriate information.

The ministry also indicated it would ensure that the Legislative Assembly was provided with complete and reliable information about cost and other benefits achieved from completed privatizations. As above, this ministry assisted ministries involved in privatizations but those ministries have had the responsibility for providing the Legislative Assembly with the appropriate information.

Follow-Up from Ministry of Health

The Auditor General's March 1989 Annual Report included value-for-money audit reports concerning the Hospitals, Medical Services Plan, Continuing Care, and Public Health programs of the Ministry of Health. A Ministry response to these audits was published in that report which advised of the actions taken, or proposed, to address the concerns raised by the Auditor General.

Since that initial response, the Ministry has continued to implement a number of recommendations of the Auditor General as resources allow. A progress report on these initiatives is included.

It should be noted that on February 22, 1990, the Premier and the Minister of Health announced the establishment of a Royal Commission to examine health care in British Columbia and its terms of reference include:

> *"To examine the costs associated with each of the health care system's major elements and the current methods of funding and reimbursement and to identify possible options, including alternative delivery models, that would allow for better allocation and use of available resources."*

Other terms of reference, in similar fashion, encompass objectives associated with value-for-money audits.

Hospital Programs

Generally, the 1989 Hospital Program's responses have not changed substantially. However, progress has been made to address certain issues raised in the report:

Efficiency and Effectiveness

A policy has been developed which encourages greater efficiencies in the hospital industry by providing a mechanism whereby hospitals can use accumulated operating funds for selective capital purposes.

Hospital Programs is now funding increased utilization on the basis of population demographics and referral patterns which recognize the pressures that drive up costs but exclude workload increases which are not based on need.

Hospital Reviews now being undertaken include a component which determines the appropriateness of the medical services being provided by the hospital to its community.

The Hospital Innovation Incentive Program was introduced and is being used to provide hospitals with opportunities to introduce cost saving programs or equipment.

Better Information

The Ministry has endorsed the national Management Information System Guidelines (MIS) recently developed by the Canadian hospital industry, and is encouraging its use by hospitals. Any new management information systems have to be MIS compatible, and a business case with a payback has to be made before approval is given.

New accounting guidelines have been developed and are being implemented which will ensure consistent reporting by the industry.

The reporting requirements for hospitals has been revised with improved information being collected and analyzed.

Coordination of Health Services

The Ministry has established a Hospital/Community Partnership Program to support hospital management in developing programs to provide an appropriate health care delivery system for their community. Up to one-half percent of a hospital's total operating grant is available for this purpose. There programs are developed with local health boards and community agencies to improve health care while controlling utilization of hospital services.

The Ministry has completed its collection of data on programs and services provided by hospitals in the province. This information is now being used to better coordinate services and to improve funding allocation decisions.

Medical Services Commission

The Medical Services Commission has created a Program Monitoring and Education Branch to improve its ability to monitor outcomes against billed services. Pilot projects has been initiated with the British Columbia Medical Association and supplementary benefit practitioners regarding the issuance of Health Benefit Statements, formerly known as point of service statements. The CareCard initiative has significantly improved subscriber address records and the Subscriber Demand Committee has been established to review patterns of demand by subscribers and educate them in the prudent use of medicare.

The triplicate prescription was introduced on January 1, 1990, with the cooperation of the College of Physicians and Surgeons, the College of Pharmacists, the College of Dental Surgeons and the B.C. Veterinary Medical Association. Development of the proposed pharmacy network is still under review.

Continuing Care

The Auditor General's Report commented on numerous aspects of the Continuing Care Division's operations, but it focused on four main topics:

Assessment of Clients

During the past year, the Division has taken several important initiatives relating to assessment. It has initiated an assessor education and training strategy aimed at ensuring consistent assessment decisions and consistent selection of services. It has also pilot-tested a more comprehensive psychological evaluation process for clients, and will implement this process Province-wide by mid-1990. Once the new psychological evaluation process is in place, the Division will begin exploring ways of improving analysis of the social circumstances of clients being assessed.

The need for additional assessors and support staff, as well as expanded staff training opportunities have been identified as priorities in the 1990/91 budget request.

Alternatives to Facilities

The Division has completed a study of institutionalization rates and potential resource reallocations within the existing system. A review of respite services was also completed, and service enhancements will be considered in 1990/91 if sufficient funds are available. As well, the Division is currently undertaking a comprehensive study of supportive housing options, in collaboration with the British Columbia Housing Management Commission.

Both the Continuing Care Division and the Ministry as a whole remain firmly committed to minimizing unnecessary institutionalization of clients. In 1989/90, the Hospital/Community Partnership

Program was initiated to encourage strong, effective linkages between hospital and community services. In addition, the Victoria Health Project, now in its second year of operation, has succeeded in reducing the need for facility-based care in the Capital Region by means of a variety of innovative demonstration projects.

Program Management

The Continuing Care Act has received Royal Assent and will be proclaimed shortly. A strategic plan has been developed, and has been used as the basis for detailed action plans. The Division has formulated key success indicators, including ways of measuring them, and has also developed a new planning and resource allocation model. The recently initiated "Facility Profile Monitoring System" represents a significant improvement to the Division's management information, and will contribute to effective decision-making for the distribution of resources and services.

The Division consults with gerontologists as needed, and has ongoing access to other geriatric specialists through the Continuing Advisory Sub-Committee on Long Term Care and special contractural arrangements. A Seniors' Advisory Council will be established under legislation passed in 1989, thus ensuring an avenue for community input into the Division's program planning.

Value-for-Money from Long Term Care Facilities

Residential care standards are now in place and will become mandatory with proclamation of the Continuing Care Act. The Quality Assurance Branch is now fully staffed, and is undertaking regular facility reviews. The new Continuing Care Act will provide for written contracts with facilities and will empower the Ministry to appoint public administrators when serious problems arise.

The Division is undertaking "comprehensive care" pilot projects to explore the role of facilities in providing a wider variety of services. Under the auspices of this innovative program, the Division has received 97 proposals from facilities interested in experimenting with new services in areas such as rehabilitation, psychogeriatric services, and community outreach.

The Division is participating on inter-program committees set up to develop strategies concerning psychogeriatric care and multilevel care facilities. The staffing requirements of facilities caring for "special needs" clients are under review, and the Continuing Advisory Sub-Committee on Long Term Care is examining the potential role of physicians within long term care facilities. As well, the Division has contracted with a geriatric psychiatrist to develop educational materials not just for its own staff but also for the staff of funded agencies, including facilities.

In 1989/90, the Division was able to provide significant funding enhancements to facilities. The wage disparities between union and non-union facility staff were significantly reduced and additional adjustments were provided for management staff. Similar increases were also provided in the home support sector.

Efforts are well underway to simplify and improve the data collected through the quarterly financial reports submitted by facilities. Together with the new Facility Profile Monitoring System, the revised quarterly reports will enable the Division to undertake valuable "peer group" analysis of facility operations.

The linkage of funding to quality and efficiency remains a critical, ongoing objective. In 1990/91, the Division will continue to refine residential care standards and monitoring. It will also continue to carefully examine alternative funding methodologies.

Public Health

A review of Public Health programs and priorities in relation to available resources continued in 1989/90. As part of this process, an Information Resource Management Plan was completed and further development occurred in the area of core programs. In 1990/91 an extensive review will be undertaken of the public health mandate and the resources required to fulfill this mandate.

In order to increase the level of service provided and also encourage community involvement in Public Health, innovative local program initiatives are being funded through health units and Union Boards of Health. Public Health also participates actively in the Hospital/Community Partnership Program in many areas.

Extensive implementation and upgrading of information systems was undertaken in 1989/90 and further expansion is planned for the coming year.

Part IV: Accountability of Crown Corporations to the Legislative Assembly

Part IV: Accountability of Crown Corporations to the Legislative Assembly

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Accountability of Crown Corporations to the Legislative Assembly

A review of the ways in which Crown corporations tell the legislature about their performance in the past and their intentions for the future

The Need for a Review of Public Body Accountability

In recent annual reports, we have commented on the significance of public bodies in British Columbia as instruments of public policy. In our 1989 Annual Report we pointed out the need for a comprehensive study of public body accountability.

The topic of public body accountability is not new to British Columbia. In 1980, the then Minister of Finance appointed a Task Force to develop recommendations for improving the proposed *Financial Administration Act*. The proposed Act included a section on public bodies, but it was removed after the Task Force concluded that, while the issue was important, it was also complex, and needed further study. The Task Force recommended that "further analysis should be undertaken by the Ministry of Finance in consultation with other ministries and public bodies to review all aspects of the public bodies issue." Additional recommendations were that the review cover the definition, identification, and classification of public bodies; and that proper accountability arrangements be prescribed for each type of public body.

Since the Task Force reported, the current *Financial Information Act* has become law. The Act requires many public bodies to prepare certain information about salaries and payments to suppliers, in addition to annual financial statements. However, most of the issues raised by the Task Force have not yet been addressed. We believe, therefore, that a thorough examination of the accountability of public bodies is necessary.

In this report, we focus on one type of public body: the major Crown corporations. In British Columbia, Crown corporations are a part of the daily life of every citizen, providing electricity, transport, motor vehicle insurance and other services. They have a significant economic and social impact on the province. For the fiscal year ended March 31, 1989, they controlled large amounts of public money: almost $6 billion in both revenues and expenditures, and over $17 billion in assets. The money and resources managed by Crown corporations ultimately belong to the citizens and taxpayers of British Columbia.

The Legislative Assembly has a basic right and responsibility to oversee receipts and expenditures of all public money. In overseeing

Crown corporations, the role of the Assembly is to hold both the government and — through the ministers responsible — the individual corporations accountable for achieving public policy objectives delegated to them, and for good management of the public resources entrusted to them. As part of the machinery of government, Crown corporations should provide information regarding their operations to the Legislative Assembly in a comprehensive, fair, and meaningful way.

Audit Purpose and Scope

We set out to assess whether the Crown corporations are telling the Legislative Assembly enough about their affairs. We considered whether the corporations are providing appropriate information about what they intend to do, and about their actual performance.

We reviewed accountability reporting arrangements for British Columbia's Crown corporations, and compared them with those in other jurisdictions in Canada and in some Commonwealth countries. We looked at applicable legislation, reports tabled in the legislature, and other public documents. As well, we talked to various ministers, Members of the Legislative Assembly, and senior officers of the major Crown corporations.

We concentrated on the relationship between the Legislative Assembly and the Crown corporations, focusing on the information flows between the two. We did not look at the relationships and information flows between the government (ministers and public servants) and the Crown corporations. That is a large and complex issue in itself, which may be the subject of a future review by our Office.

Conclusion

Although some of the Crown corporations are now moving toward better accountability reporting, in general they are not providing enough information to the Legislative Assembly about what they intend to achieve. Indeed, there is currently no requirement for them to provide such information. Reporting on actual performance is more complete, but tends to focus on historical financial data, rather than on operational performance, and is not compared to objectives and specific operating targets. We found that the non-financial information that is provided by Crown corporations is often presented in an unsystematic way, making it hard for the reader to evaluate whether corporations are progressing toward their objectives.

We believe much could be gained if a framework for accountability reporting was designed for the major Crown corporations. Such a framework should cover operational and financial information, future-oriented as well as historical. We believe the framework proposed in this report would go a long way toward bringing British Columbia's Crown corporations under appropriate legislative scrutiny. It also would allow the corporations to show publicly their objectives, their progress in achieving those objectives, and their success in carrying out their mandates with due regard for economy and efficiency.

Crown Corporations in British Columbia

The Crown corporations in British Columbia are separate legal entities, usually created by an act of the legislature, although a few corporations were created under general companies legislation (Table 4.1). Each Crown corporation is accountable to the Legislative Assembly through the minister responsible for the corporation, and each has its own unique objectives, financing and markets.

Objectives

The activities of Crown corporations usually reflect a mix of financial and public policy objectives. For example, British Columbia Ferry Corporation (B.C. Ferries) has an implied set of competing objectives that it has to balance. If, for instance, to maximize financial returns were its only objective, it would have to either close some of its routes or raise its fares. However, the corporation also has to respond to public policy objectives. These are that ferry fares remain reasonably affordable, and that adequate access to service be maintained, even though some routes are unprofitable.

Financing

Many of the Crown corporations have received injections of capital from the Consolidated Revenue Fund, and many also have their debt guaranteed by the Province. Several of the corporations are, to some extent, funded annually by appropriations from the Consolidated Revenue Fund, while others, such as the British Columbia Hydro and Power Authority (B.C. Hydro) and the Insurance Corporation of British Columbia (ICBC), do not require annual funding (Table 4.1). Irrespective of the immediate source of funding, we believe that, ultimately, all money administered by Crown corporations is public money. It follows from this that all Crown corporations should be fully accountable to the Legislative Assembly with regard to their use of public money.

Markets

Most of the Crown corporations operate in a monopoly or a protected market. For instance, B.C. Hydro generates most of the electricity in the province, and British Columbia Buildings Corporation receives about 90% of its rents from government ministries and agencies. Other corporations face more open competition. For example, B.C. Rail competes in the railway freight market and the B.C. Pavilion Corporation competes in the North American convention market.

All these factors have to be considered in the design of an appropriate framework for accountability reporting.

TABLE 4.1

Major Crown corporations in British Columbia as at March 31, 1989

Source: 1988-89 Public Accounts of British Columbia

	Legislation		Funding		
	Own Act	General Companies Legislation	Annual Subsidy (1988-89) ($ million)	Accumulated Capital Contribution ($ million)	Provincial Guarantees ($ million)
Transportation:					
British Columbia Ferry Corporation	x		56	257	75
British Columbia Railway Company	x		17	768	224
British Columbia Steamship Company (1975) Ltd.		x	-	-	-
British Columbia Transit	x		171	205	264
Energy and Resources:					
British Columbia Hydro and Power Authority	x		-	-	4,712
British Columbia Petroleum Corporation	x		-	-	-
General Government and Other:					
British Columbia Assessment Authority	x		7	-	-
British Columbia Buildings Corporation	x		-	56	213
British Columbia Educational Institutions Capital Financing Authority	x		-	-	361
British Columbia Enterprise Corporation[1]	x		3	-	38
British Columbia Lottery Corporation		x[2]	-	-	-
B.C. Pavilion Corporation		x	5	156	-
British Columbia Regional Hospital Districts Financing Authority	x		-	-	730
British Columbia School Districts Capital Financing Authority	x		-	-	809
British Columbia Systems Corporation	x		4	-	21
Insurance Corporation of British Columbia	x		-	-	-
Provincial Rental Housing Corporation		x	-	1	-

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[1] British Columbia Enterprise Corporation ceased operations in September 1989.

[2] The *Lottery Corporation Act* was passed in 1986 but has not yet been proclaimed.

Accountability Reporting

More Than Financial Performance

Accountability is the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties: one that assigns the responsibility, and one that accepts it along with the obligation of reporting how the responsibility has been met. In the private sector, the accountability relationship is between corporations and their shareholders. Corporations are required to provide periodic reports to their shareholders, in which primary consideration is usually given to profitability, and future financial prospects.

For Crown corporations, however, the accountability relationships and circumstances are different. The Legislative Assembly performs many of the functions associated with ownership, such as authorizing the corporations' creation, mandate, disposal and dissolution, and providing funds to them. As a result, the corporations' accountability extends to the Legislative Assembly, not just to the government.

Also, the nature of the information to be reported by Crown corporations differs from that reported by the private sector. This is because Crown corporations' financial performance may be affected by their operating in a monopolistic environment, having to pursue public policy objectives, or other factors. The Legislative Assembly should know about each corporation's mandate, objectives, and intended activities. Members also should be able to form their own assessments about each corporation's performance with respect to its objectives and its management of resources. This can only partially be shown through standard financial statements. There is a need to look "beyond the bottom line."

More Guidance Needed

Legislated requirements for accountability reporting are limited. Neither the *Financial Administration Act* nor the *Financial Information Act* provides any general framework for Crown corporation reporting to the legislature. It is only the acts by which Crown corporations were established that address reporting. Most of those acts require the minister responsible to table audited financial statements and a "report on operations." There are no guidelines, however, about what information should be included in a report on operations. None of the acts deals with reporting requirements for future-oriented information, and some make no mention at all of reporting requirements. Those corporations established under general companies legislation do not have any legal requirement to report to the legislature, although in practice all of them have provided at least audited financial statements.

We believe that a general framework, applicable to all Crown corporations, is needed. The framework should identify the nature, extent and timing of all reporting to the Legislative Assembly, and should be supported by legislation. For example, it could be included in an amended *Financial Administration Act*. The framework should also be supplemented by more specific government-issued guidelines.

Reporting Future-Oriented Information

Overview

We found that the nature and extent of future-oriented information provided to the Legislative Assembly about Crown corporations was inconsistent. This is because there is currently no requirement for them to provide such information. A few Crown corporations have published, or are about to publish, information about their plans, including financial forecasts. Others have provided information retroactively about their plans, in their annual reports. Yet others have provided no specific future-oriented information.

Recommendations

We believe each Crown corporation should be required to provide the Legislative Assembly with a "Statement of Corporate Intent." This statement should include summary information about the corporation's mission, objectives, key performance targets, major planned activities, and financial plans. Each Crown corporation should be required to table — through the minister responsible — the statement at the beginning of the corporation's financial year. We recognize that there may be situations where a corporation could be put at a competitive disadvantage by disclosing certain information with respect to its objectives and plans. We believe the government should provide guidelines defining the circumstances under which the minister responsible may decide not to report certain future-oriented information.

Mandates and Mission Statements

Mandates

An act setting up a Crown corporation usually specifies the corporation's mandate: its purpose(s), powers and duties. For example, the *Assessment Authority Act* states that the British Columbia Assessment Authority's purpose is:

> "to establish and maintain assessments that are uniform in the whole of the province in accordance with the Assessment Act."

The mandates provided by legislation are sometimes quite broad. Several of the corporations have lists of powers and duties in their acts that give them considerable discretion in how they go about their businesses. For example, the *Hydro and Power Authority Act* lists 25 activities that B.C. Hydro can enter into. Their descriptions range from precise statements ("integrate existing power plants") to vague generalities ("do anything necessary or desirable for carrying out any of the powers and purposes in this section").

Mission Statements

Broadly worded mandates provide Crown corporations with the flexibility to react quickly to changing circumstances. For instance, the British Columbia Systems Corporation has been able to adapt its approach to rapid changes in computer technology, without needing amendments to its act. However, broadly worded mandates also give the government of the day wide discretion in setting objectives. Accordingly, for the legislature to hold the government and Crown corporation management accountable, it needs to know how the government and the corporations have interpreted their legislated mandates and what the corporations' specific objectives are.

It is now common for corporations, in both the private and public sectors, to develop a "mission statement" — a general statement of what an entity does and why it does it. Some of British Columbia's Crown corporations have published such statements. For example, B.C. Hydro's mission statement, which is included in its Corporate Business Plan for the period 1989-1992, reads:

> "to support the economic growth of British Columbia through the efficient supply of electricity."

However, reporting of mission statements by Crown corporations in British Columbia is inconsistent. About half the major Crown corporations have published such statements. Others have given information about their missions in a less direct manner, leaving it to the reader to discern what management priorities are.

Members of the Legislative Assembly should be informed of how the government and Crown corporation management have interpreted each corporation's legislated mandate, and how this interpretation is linked to corporate objectives and activities. For this reason, we believe it is desirable for each Crown corporation to publish a clearly defined mission statement annually.

Objectives and Performance Targets

Good management requires more than mandates and mission statements. It also requires the development of strategic and operating plans, and the establishment of objectives and measurable performance indicators.

Corporate objectives flow from, and lend support to, the mission statement. Objectives are usually statements of what a corporation intends to achieve. For example, B.C. Hydro has established four corporate objectives:

- to maximize its contribution to the economic development of British Columbia;
- to be the most efficient utility in North America;
- to be recognized by its customers as a superior marketing and customer-service company; and

- to be one of the best employers in British Columbia.

Good accountability requires that corporate objectives be measurable so that actual performance can be compared to them. To achieve this, objectives can be linked to key performance indicators. These are quantitative measures that highlight the areas of performance which management has identified as being critical to the organization's success. They may be financial (e.g., the rate of return on investment), or non-financial (e.g., levels and quality of service). Used properly (i.e., setting appropriate targets for the key performance indicators and subsequently comparing actual performance to those targets), the indicators provide a good means of measuring progress towards achieving objectives, and of assessing management performance.

The B.C. Hydro Corporate Business Plan, for example, includes a section about performance targets. It explains that management has developed several key performance indicators to measure how well the corporation is doing in meeting its goals and objectives. Included as key indicators are such aspects of performance as electricity pricing, employee safety, average unit costs, customer satisfaction, reliability, and trouble call response time. The corporate planning document provides targets for these and other indicators, which can later be compared to actual performance.

We found that information about British Columbia's Crown corporations' objectives and performance indicators ranged from extensive multi-year corporate plans to no information at all. As mentioned earlier, B.C. Hydro published a detailed Corporate Business Plan for 1989-1992 which contained much useful information about its objectives, performance indicators and targets. B.C. Pavilion published a planning document for the 1989/90 year that included some specific targets and activity descriptions. We understand that British Columbia Transit is planning to publish extensive future-oriented information in 1990. In general, however, most corporations published little information about their objectives and performance indicators. Even when objectives were disclosed, we usually found it difficult to link them to reported performance because of the lack of measurable targets.

We believe each Crown corporation should be required to include in its Statement of Corporate Intent a summary of its major corporate objectives, and the targets for the key performance indicators that support those objectives.

Intended Activities

It is important that the Members of the Legislative Assembly be informed of the intended activities of Crown corporations. This provides Members with the opportunity to review how the corporations intend to carry out their legislated mandates, and to assess the appropriateness of the intended activities.

The corporations which were created under general companies legislation, and which do not have their own acts, do not have their

FUTURE-ORIENTED INFORMATION

In this report, we are suggesting improved disclosure of future-oriented information. British Columbia Transit provided us with information on its mission, plans and forecasts. We set out this information below to illustrate the relationships between corporate mandates, mission statements, objectives, and key indicators.

Mandate

The *British Columbia Transit Act* states that the "purposes and objects of the authority are to plan, acquire, construct or cause to be constructed public passenger transportation systems and rail transit systems, and to provide for the maintenance and operation of those systems. . . ."

Mission

From that legislated mandate, B.C. Transit has derived the following mission statement:

> "The Mission of B.C. Transit is to enhance the social and economic life of the communities we serve by providing safe, reliable, effective, and environmentally sensitive public transit."

Objectives

From that mission statement, it has derived the following objectives (goals):

• Service Goal:	To provide safe and reliable service and be responsive to public needs and comments.
• Social Goal:	To meet the mobility needs of the disabled and those who have no alternative means of travel.
• Transportation Goal:	To reduce traffic congestion by increasing the "people-moving" capacity of the system.
• Economic Goal:	To promote and facilitate economic and regional development.
• Environmental Goal:	To reduce pollution and the use of fossil fuels.
• Financial Goal:	To make efficient and effective use of transit resources and minimize the need for operating subsidies.

Associated with these goals are financial projections and budgets for the coming years. These address the resources needed to achieve the objectives. The final step is to measure the outputs achieved: the effectiveness of B.C. Transit in achieving its objectives. For public reporting purposes, this can be achieved by reporting on key indicators of performance.

Key Performance Indicators

From the objectives set by B.C. Transit, management has derived several key indicators of performance. These are the factors the corporation sees as being critical measures of whether it is achieving its objectives. Some examples include:

- ridership volume
- cost per passenger
- revenue as a percentage of costs
- rider evaluation of service

mandates supported by legislation. We believe that the mandate of every new parent Crown corporation should be set by the legislature through the passing of a special act, so that the range of activities contemplated by the corporation receives the approval of the legislature.

We found that, apart from those corporations that had published separate planning documents, the main source of information about activities was provided retroactively in annual reports. We believe that information about each corporation's intended activities should be made available in its Statement of Corporate Intent, so that they can be reviewed by Members in a timely manner.

When Crown corporations wish to engage in a new field of activity, they sometimes create subsidiary corporations or enter into joint ventures, some operating overseas. We found that the extent of accountability information published about these subsidiaries and joint ventures varied. B.C. Hydro, for example, published a separate document describing the objectives and activities of its operating subsidiaries. In some other cases, activities of subsidiaries were described in the parent corporation's annual report, while in others we found no explanation of the role or activities of subsidiaries. We believe the Legislative Assembly should be fully informed about major activities to be undertaken by subsidiaries or joint ventures. Also, without limiting the ability of Crown corporations to create subsidiaries, we believe the legislature should require that the activities of any subsidiaries be consistent with the mandate of their parent corporation.

Financial Plans

Long-term and annual corporate plans and objectives are developed in conjunction with operating and capital budgets. Usually, very little information gets to the legislature about these financial plans.

Some Crown corporations are partially funded on an annual basis through voted appropriations. However, as we commented in our 1989 report on the Control of the Public Purse by the Legislative Assembly, there is usually little or no information provided about the purpose or expected results of such funding. For example, the sub-vote in the *1989/90 Estimates* that described the funding for B.C. Ferries read, "This sub-vote provides for a contribution to the British Columbia Ferry Corporation..." If our 1989 recommendations regarding the Estimates were implemented, additional information about budgets and expected performance of Crown corporations would be included in the Estimates with respect to the annual funding being provided. However, because no Crown corporations receive all their funding annually through the Estimates, such additional information would deal only with a part of each corporation's activities.

We do not believe, however, that the legislature needs to receive, review or approve detailed annual budgets for Crown corporations. Where annual funding is being provided from the Consolidated Revenue Fund, the extent of the information included in the Estimates should be consistent with that provided for other government spending. In addition, the legislature should be given summary information about the financial plans for all Crown corporations. This information should be included in each corporation's Statement of Corporate Intent.

Reporting Performance

Overview

All Crown corporation annual reports included financial information, along with narrative descriptions of activities. However, we found that information about how well they had achieved their objectives and how well they had managed their resources was often insufficient or difficult to interpret. In our opinion, the form and content of Crown corporations' annual reports make it difficult for readers to form their own assessments about the effectiveness of the corporations.

Current Practice in British Columbia

All the Crown corporation annual reports we reviewed contained some of the basic elements of good accountability reports, such as commentary on financial results. However, information about operations was often unstructured and hard to interpret. Although most reports carried a "president's message" or similar type of overview, these tended to dwell on the positive aspects of corporate activities for the year. Descriptions of activities and achievements appeared to be selective and, in some cases, self-congratulatory, rather than complete and objective. Performance information was usually confined to historical financial data, along with a narrative description of activities, and was not linked to objectives.

Most of the reports provided some measurement of selected performance indicators, but they did not deal with all significant aspects of corporate activities. In addition, the measurements that were included were not presented systematically or compared to targets. What targets the corporations had were often not easy to discern. Noticeably absent from most reports were indicators of quality of service, information on customer satisfaction, and discussion of internal efficiency. Segmented financial information, by line of service or by region, such as that provided by B.C. Ferries on the profitability of its regions, was rare. Furthermore, the lack of a systematic reporting structure often made it difficult to compare a corporation's performance from year to year.

There were some bright spots, however. In particular, B.C. Hydro has gone the furthest of all the Crown corporations toward reporting actual performance compared to targets for a comprehensive set of performance indicators. Other corporations offered some good information as well. For example, the 1988 report of the British Columbia Buildings Corporation included a range of historical financial performance data, including vacancy rates for its rental properties, and the British Columbia Assessment Authority published some data on employee productivity.

Performance Information: Recommendations

As discussed earlier, performance of Crown corporations cannot be judged by financial results only. Monopoly situations, public policy objectives, and the types of services they provide create the need for additional accountability information. As part of the accountability framework that we think is necessary, all British Columbia Crown corporations should be required to prepare and table (through a minister) meaningful annual reports on their operations. The framework should encourage management commentary on performance, and require the use of measurable performance indicators. It should also require that actual performance be compared to the objectives and targets announced at the start of the year, and that indicators of economy and efficiency be shown. The goal is that enough appropriate information be provided to enable Members of the Legislative Assembly to form their own assessments about the overall effectiveness of the corporations.

The framework should be set in general terms, to ensure that individual Crown corporations are not burdened with inappropriate reporting requirements, and should be supported by government-issued guidelines. One approach which we believe would be useful when developing reporting guidelines is that proposed by the Canadian Comprehensive Auditing Foundation. As a result of its research into effectiveness reporting, the Foundation concluded that there were 12 basic attributes of effectiveness (Table 4.2).

The Foundation's study recognized that effectiveness is a concept which contains subjective components that will change with time and viewpoint. Forming assessments about effectiveness often involves weighing multiple, competing and sometimes contradictory objectives and measures. We believe, however, that these attributes of effectiveness would give managers and governing bodies a useful basis for assessing the performance of all organizations, regardless of size or activities. Such attributes are intended to provide corporations with a basis for reporting meaningful information that can be substantiated.

We believe that if Crown corporation reports contained information about the attributes described above, adapted to the individual circumstances of each corporation, the legislature's understanding of Crown corporation performance would be improved. Management would also be given the opportunity to show clearly how they have fulfilled their mandates.

What Would it Cost?

From our discussions with Crown corporation directors and senior management, we have concluded that much of the future-oriented and performance information we are suggesting be reported to the legislature is already available internally to management

TABLE 4.2

The proposed attributes of effectiveness

Source: Canadian Comprehensive Auditing Foundation

Management Direction

The extent to which the objectives of an organization, its management and employees are clear, well-integrated and understood, and appropriately reflected in the organization's plans and structure.

Relevance

The extent to which an activity continues to make sense in regard to the problems or conditions to which it is intended to respond.

Appropriateness

The extent to which the design of an activity and the level of effort being made are logical in light of the specific objectives to be achieved.

Achievement of Intended Results

The extent to which objectives have been realized.

Acceptance

The extent to which customers for whom an activity or line of business is designed judge it to be satisfactory.

Secondary Impacts

The extent to which other significant consequences, either intended or unintended and either positive or negative, have occurred.

Costs and Productivity

The relationships among costs, inputs and outputs.

Responsiveness

An organization's ability to adapt to changes in such factors as markets, competition, available funding, or technology.

Financial Results

The matching of, and the accounting for, revenues and costs, and the accounting for and the valuation of assets, liabilities and equity.

Working Environment

The extent to which the organization provides an appropriate work atmosphere for its employees, provides appropriate opportunities for development and achievement, and promotes commitment, initiative and safety.

Protection of Assets

The extent to which important assets are safeguarded.

Monitoring and Reporting

The extent to which the organization monitors and reports on its own effectiveness.

and boards of the corporations. The cost of publishing it would therefore likely be minimal. Where the information is not readily available, we believe that it should be produced in the interest of good management. We believe also that guidelines for periodic public presentations of information about a corporation's effectiveness would offer boards of directors a good basis for internal evaluations of their corporations.

Review by the Legislative Assembly

Crown corporations are a significant part of government, and the vital role of the legislature as guardian of the public purse extends to monitoring their activities. For such monitoring to be effective, appropriate information is needed, and this has been the focus of our review. But the way in which the information is used is also important to effective monitoring.

Members are presently able to use information about Crown corporations when the legislature is in session by questioning the minister responsible during the debates on the Estimates, or during question period. Questions can also be raised at the Public Accounts Committee. While Members do, therefore, have opportunities to raise questions about the affairs of Crown corporations, we believe the Legislative Assembly and the government should consider whether there is a need for more structured, periodic reviews of the affairs of individual Crown corporations.

Looking Ahead

We believe that Members of the Legislative Assembly should look for an improvement in the quality and consistency of the information they receive about the objectives and performance of Crown corporations. We have suggested that this might be achieved by the development of a legislated framework for Crown corporation accountability reporting, supported by government-issued guidelines. The Legislative Assembly must be fully satisfied with the nature, scope, rigor and usefulness of the information to be provided. It should have the ultimate say on how the Crown corporations are accountable to the Assembly.

In this report, we have focused on the public reporting practices of Crown corporations. The information provided by Crown corporations should have real substance and be meaningful internally to the organizations. Improved public accountability reporting is not intended to be a substitute for good management, nor should it place unnecessarily rigid restrictions on management. Indeed, if all parties involved agree to the nature and extent of accountability information to be provided, a proper system of accountability frees managers to get their job done, rather than constricting them.

We believe the managers of British Columbia's Crown corporations would welcome the opportunity for more extensive public reporting on their activities. In our discussions with them, we were impressed by their willingness to

ACCOUNTABILITY ARRANGEMENTS IN OTHER JURISDICTIONS

Below is a summary of the ways some other jurisdictions deal with Crown corporation accountability.

Canada:

Federal legislation divides the corporations into two categories and sets reporting requirements for each category. In general, ministers responsible for corporations are required to provide Parliament with annual summaries of corporate plans (including statements of the corporations' expected performance in relation to their objectives) and capital budgets, information on the achievement of objectives, and financial statements. Also, for certain corporations, a summary of the operating budget is required.

Manitoba:

The government recently introduced legislation which establishes a council to oversee Crown corporations, with powers to set mandates and performance measures, review plans and operations, and question management. The council will table its annual report in the legislature, and its meetings will be public.

United Kingdom:

Parliament has been developing a system of reporting for its nationalized industries (Crown corporations) over the last 20 years. Corporations publish targets and indicators of actual performance. These tend to be financial, but also disclose service levels. Also, ministers provide Parliament with information on planning, capital spending, and efficiency studies.

Australia:

Crown corporations report on their powers, objectives, and activities for each program they administer. They report against targets, both financial and operational.

New Zealand:

Legislation introduced in 1986 establishes a comprehensive accountability framework. It calls for setting performance targets, and the annual tabling of a "Statement of Corporate Intent," which is to include information about objectives, activities, performance targets, and non-commercial activities. Targets are carefully chosen and, where there is conflict between financial and policy objectives, the government compensates the Crown corporations. The corporations are then held accountable for the achievement of their targets, which they must report to Parliament.

provide full and fair disclosure to the legislature and the public. Comprehensive reporting by Crown corporations could not only provide a better basis for the Legislative Assembly to assess their effectiveness, but also increase public confidence in the management of them.

We trust this report will renew the drive toward better accountability for Crown corporations, and for all organizations operating within the sphere of the government of British Columbia.

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Other Studies of Interest

Part V: Other Studies of Interest

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Other Studies of Interest

In 1989 we undertook four studies of other matters we believe will be of interest to Members of the Legislative Assembly. In the first one, we audited the process for making grants from the Lottery Fund. The second project was an audit of the government process for the licensing and control of public gaming in the province. The third project examined the government's accounting for the financial results of privatization transactions. In the final project, we examined government policies and procedures with respect to the awareness, reporting and investigation of fraud and other illegal acts.

The results of the four projects, together with applicable responses received from government ministries, are contained in this part of our Report. Also included are the government's follow-up comments to a review undertaken in the previous year with respect to the management of government employee leave entitlements.

The Lottery Fund: An Audit of the Granting Process

This report was first issued as a Special Report to the Legislative Assembly on February 27, 1990. Since the audit was undertaken in the normal course of events during 1989, we have reprinted the report here so that our Annual Report will contain a complete record of the year's work. A response to this report from the Ministry of Provincial Secretary is also included.

Introduction

As part of my scheduled audit program for the year, my staff reviewed controls and practices employed by the government in its management of grants paid from the Lottery Fund. We focused on application, assessment, and monitoring practices, selecting a sample of project files for which transactions had occurred during the fiscal year ended March 31, 1989.

While our audit was in progress, the then Minister of Tourism and Provincial Secretary directed the Comptroller General to investigate and report on the circumstances surrounding two grants to the Semiahmoo House Society. The grants were made under the program known as Growth and Opportunities B.C. (GO B.C.) and were authorized and paid in the 1989/90 fiscal year. The Comptroller General was also directed to look at the GO B.C. grant process in general. Because of the planned coverage of the Comptroller General's investigation, I decided not to look further at the GO B.C. grants, pending the results of the Comptroller General's investigation. I did, however, direct my staff to expand their audit of other grants paid during the 1988/89 fiscal year.

The Comptroller General's investigation is now complete and his report has been issued. I have reviewed the report and conclude that it deals with the grants in question in a comprehensive manner. Also, I am in general agreement with the Comptroller General's recommendations concerning the process for GO B.C. grants; those recommendations are equally applicable to the other types of Lottery Fund grants.

The Comptroller General concluded that the specific grants which he investigated were "irregular in relation to normal program guidelines." In our own review, we found a number of situations where program guidelines were not consistently applied. Significant ministerial discretion is provided by the *Lottery Act*, and has been exercised by each Provincial Secretary, in his or her turn. There is no established process for dealing with exceptions to published grant program guidelines, or with grants that fall outside established programs. The standard of documented support for grant approvals varied considerably, and the reasonableness of project costs was generally not assessed.

According to the Comptroller General, there was an undisclosed non-arms-length relationship between the Minister at the time and third party suppliers in respect of one of the Semiahmoo grants. In circumstances where control and review processes are not fully adequate, there is increased potential for unidentified conflicts of interest in regard to any grant made.

For me to confirm the presence or absence of non-arms-length funding relationships or conflicts of interest would necessitate a special investigation of each grant, involving legal counsel and other outside specialists. Because of this fact, and because, in our review, we found no evidence that grants were made to non-bona-fide organizations or were made for purposes that did not appear to have some community benefit, I have decided not to further extend our review of this issue.

I believe that the government should carefully consider the findings contained in both this report and that of the Comptroller General, and take the necessary steps to strengthen controls over lottery grants.

This report relates to the management of all grants from the Lottery Fund and does not just focus on one grant or grant program. I am issuing it at this time, rather than awaiting the publication of my Annual Report, as I consider that, in light of the Comptroller General's report, it is in the public interest to do so.

Audit Purpose

The purpose of our audit was to determine if controls and practices promote equitable access to lottery grants, and provide reasonable assurance that grants are used by recipients for approved purposes.

The two ministries which administer most of the lottery grant programs are the Ministry of Provincial Secretary (Provincial Secretary) and the Ministry of Municipal Affairs, Recreation and Culture (Municipal Affairs). We focused on application, assessment, and monitoring practices employed by these ministries, and selected a sample of grant files for which transactions had occurred during the 1988/89 fiscal year.

Conclusions

The *Lottery Act* gives the Minister (currently the Provincial Secretary) broad discretion over the nature and amount of expenditures from the Lottery Fund. The Fund is also specifically excluded, by government management policy, from expenditure restrictions and approval and reporting requirements set by Treasury Board under the *Financial Administration Act*. These circumstances do not, however, diminish the responsibility of the Minister to be able to demonstrate that the grant approval process promotes equitable and consistent treatment of all applications.

In summary, we have drawn the following conclusions as a result of our examination within the two principal ministries involved.

Provincial Secretary

We found that the guidelines for regular capital grant programs are not being consistently followed. For special grant funding (that which is not initiated through regular grant program procedures and which often does not fall within the scope of regular grant programs), we found that no guidelines have been established. Furthermore, the availability of such funding has not been well communicated to the public. We also found that the reasonableness of the underlying project costs was generally not assessed, and that there were instances of grants being approved without documented evaluation of eligibility. It is unclear, therefore, if equitable access to lottery grants is being provided. While procedures and practices for monitoring approved use could be improved, they generally provide reasonable assurance that grants are used for approved purposes.

Municipal Affairs

Procedures and practices for cultural services grants promote equitable access to grants and provide reasonable assurance that grants are used for approved purposes. Grant evaluation and monitoring procedures for recreation and sports grants need to be improved.

Lottery Grants: An Overview

The *Lottery Act* (the Act) specifies that proceeds from the conduct of lotteries in the Province may be "paid out for cultural or recreational purposes or for preserving the cultural heritage of the Province or for any other purpose the Minister considers to be in the public interest." In the 1970's, a total of $14.5 million of lottery grants was paid out under this Act. Circumstances changed rapidly in the 1980's, as lottery revenue grew and the amount available for grant funding grew with it (see Figure 5.1). In the 1988/89 fiscal year alone, over 4000 lottery grant payments, totalling approximately $83.1 million, were made.[1]

Lottery grants are made to a wide range of community organizations through a variety of programs. The Provincial Secretary is charged with administering the Act and, accordingly, is the final authority as to what constitutes a valid grant payment.

While this responsibility covers all lottery grant programs, the actual administration of certain programs has been delegated to other ministries and government agencies (see Figure 5.2). Health research grants are handled by the British Columbia Health Care Research Foundation, and funding to the film industry is administered through the Film Development Society of British Columbia (B.C. Film). Grants for culture, recreation, sport, downtown revitalization, and heritage programs

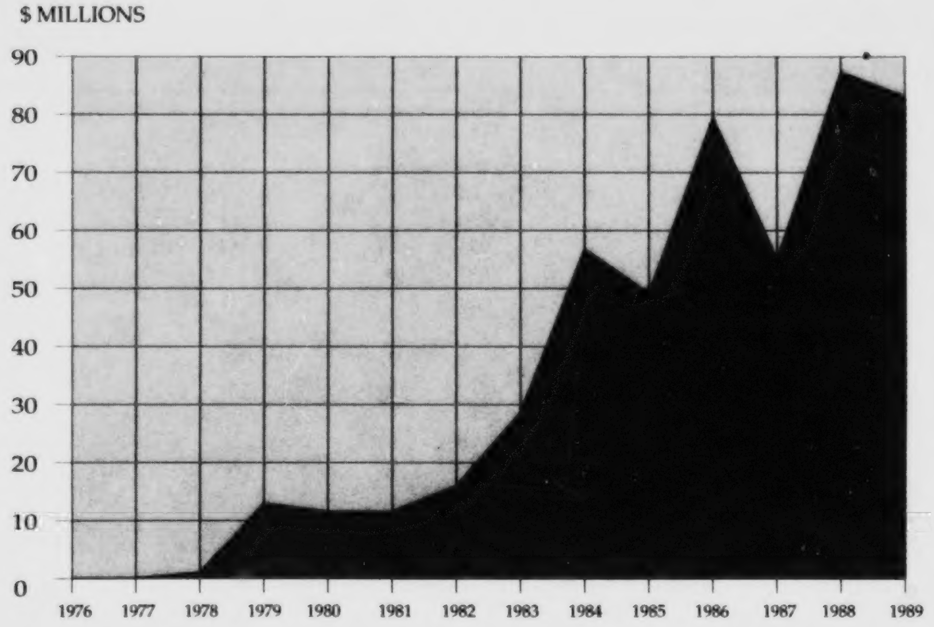

FIGURE 5.1

Lottery grants, excluding transfers to other government special purpose funds or accounts, made during the 1975/76 to 1988/89 fiscal years. The 1987 amount also excludes the payment of the Expo '86 deficit.

Source: Public Accounts of British Columbia are handled by Municipal Affairs, although it delegates the administration of most heritage grants to British Columbia Heritage Trust, and handles municipal downtown revitalization projects through a ministry-controlled society. Our review focused on grant programs directly administered by the two ministries of Provincial Secretary and Municipal Affairs.

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[1] Excludes transfers to other government special purpose funds or accounts.

Provincial Secretary

Lottery grants administered directly by Provincial Secretary are primarily for the partial funding of one-time capital projects. These projects include the purchase of equipment, the building of community facilities, and the start-up costs of public attractions such as Science World in Vancouver. The Ministry also handles a large number of small in-province travel grants for school groups and other organizations, and donations to charities.

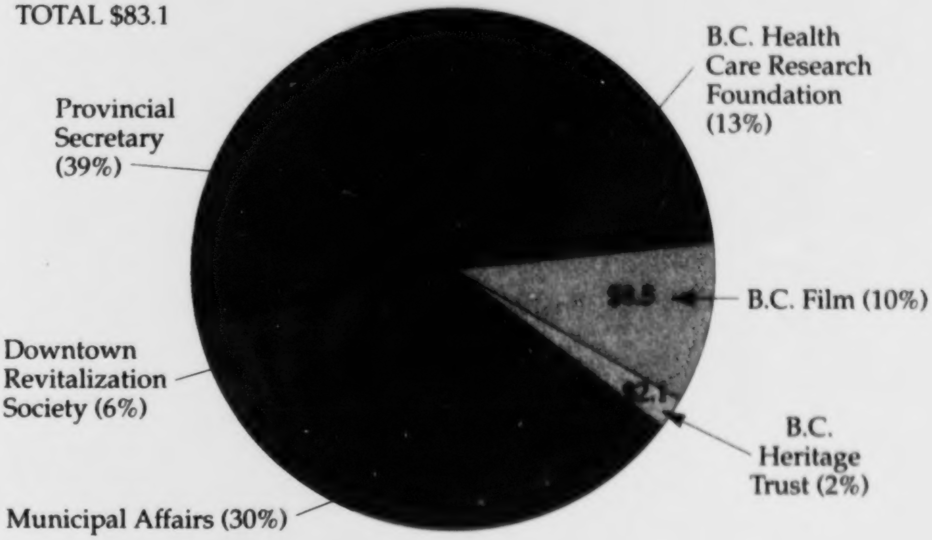
In most cases, the Ministry evaluates projects through defined programs and uses standard grant applications. These exist for in-province travel grants, regular capital grants, and GO B.C. grants. In other cases, special grant funding is provided for capital projects or special events that the Minister or the government decides are worthwhile, but which do not fit into already defined programs. Some of these grants arise from external requests; others are initiated by the Minister or the government.

In the 1988/89 fiscal year, Provincial Secretary made Lottery Fund expenditures totalling $32.4 million, excluding $19 million which was paid to B.C. Film and British Columbia Health Care Research Foundation to administer (see Figure 5.3).

FIGURE 5.2

Lottery grants, excluding transfers to other government special purpose funds or accounts, made in the 1988/89 fiscal year ($ in millions)

Source: Ministry of Provincial Secretary



Capital grants for the 1988/89 fiscal year included special funding of $6.2 million for Science World and $1 million for the Sidney breakwater — two large, government-supported projects. In addition, $7.2 million of Expo Legacy grants were paid, including a $2.4 million payment towards the Victoria Convention Centre. Expo Legacy grants were approved by a special committee of Cabinet. Special events grants approved in the 1988/89 fiscal year amounted to about $1.9 million and included such items as a contribution to a children's support fund and financial support for a high school group to travel to the United States for an academic contest.

Equitable Access

To assess whether equitable access to lottery grants is provided, we looked to see if the Ministry made clear to target groups what funding was available and what types of projects were eligible. We also looked for an evaluation process which provided reasonable assurance that only eligible applicants and projects were funded, the costs of proposed projects were reasonable, and funding guidelines were applied consistently, thereby promoting consistent treatment of similar applicants. In addition, we looked for adequate accountability regarding grants made.

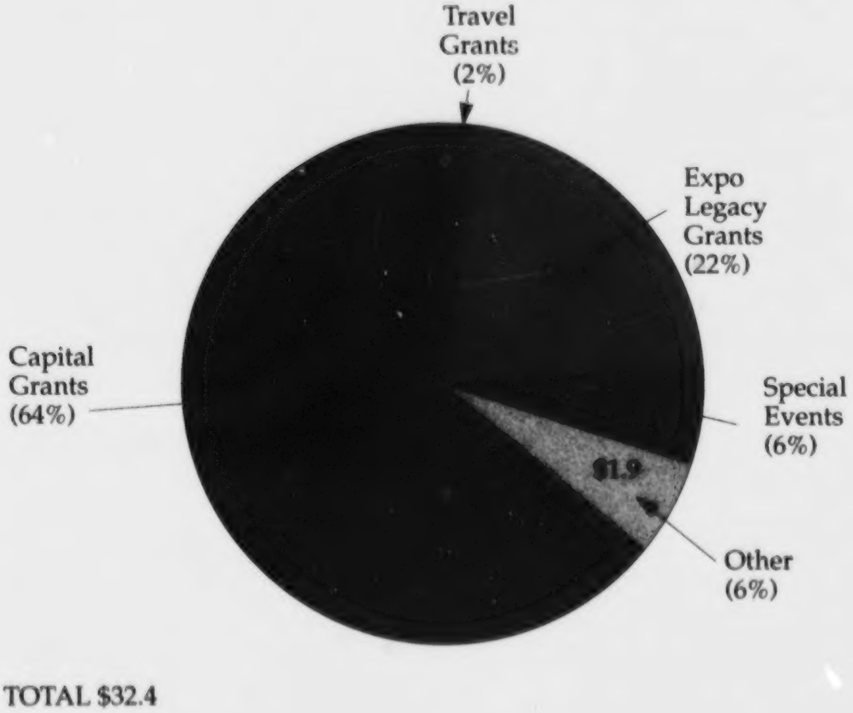


FIGURE 5.3

Lottery grants, excluding transfers to other government special purpose funds or accounts, administered directly by Provincial Secretary for the 1988/89 fiscal year ($ in millions)

Source: Ministry of Provincial Secretary

Establishing Guidelines

For in-province travel, regular capital, and GO B.C. grants, the Ministry publishes guidelines dealing with eligibility and funding. However, similar guidelines have not been established for special grant funding, which is dealt with on a case by case basis.

Special grants are sometimes available for projects that would have been denied funding through defined grant programs. It is unclear whether potential applicants realize the opportunity to apply for this special funding. Out-of-province travel, for example, has sometimes been funded through special events grants although it is excluded from eligibility under the travel grant program.

If potential applicants are to be given equal opportunity to access lottery grant funding, we believe Ministry guidelines should cover, as far as practical, all types of grants the Minister expects to fund. These guidelines should then be clearly communicated to the public.

Assessing Eligibility

To assess eligibility, the Ministry uses standard applications for most grants. These applications require that certain basic information be supplied. For regular capital grants, for example, applicant organizations must indicate if they are societies or other eligible organizations. They must also provide a description of the proposed project, a cost estimate, information on other funding, and an explanation of how the project will benefit a reasonably broad community base.

Eligibility guidelines for regular capital grants state that applicants must be municipalities, regional districts, local government agencies, registered non-profit societies, or non-profit societies endorsed by a local or provincial government agency. Informal groups, individuals, or businesses are excluded, as are projects for schools and post-secondary institutions. According to the guidelines, capital grants are not given for operating expenses, for expenditures incurred before the application was made, or for certain types of expenditures specifically excluded from eligibility. However, these guidelines are not applied consistently.

In some grant files, for example, we found that excluded organizations had received funding. In some other files, we found grants which funded operating costs, or provided retroactive funding, or apparently funded specifically excluded items. We noted one file where the $23,166 recommended by a project officer for a grant was increased to $65,000 by the Minister at the time, without documented explanation, effectively funding retroactive expenditures. The grant in question was also for an item specifically excluded according to the guidelines.

We believe that existing eligibility guidelines should be consistently applied— the granting of exceptions does not promote consistent and equitable treatment of similar organizations or projects. If the guidelines do not represent the desired policies of the Minister, they should be changed and the public told about the changes. If, however, unusual circumstances arise where making of exceptions from existing guidelines is considered desirable, we believe there should be a special process for dealing with the exceptions. This process should be one that enables the Minister to demonstrate that funding decisions are equitable and supportable. One way of dealing with exceptions would be to establish an advisory committee, which is permitted under the Act.

For capital grants, project officers generally perform and document an evaluation of the eligibility of each proposed project, and make a recommendation to the Minister. However, we found several instances where grants were approved by the Minister without any documented evaluation. We believe that consistent and complete documentation of how each application or request was evaluated and why each grant was provided should be prepared to help ensure that consistent and appropriate funding decisions are made.

Project Cost Analysis and Applicant Need

We found that the Ministry has not established any standards for applicants to demonstrate the reasonableness or fair value of project cost estimates. Applicants are not required to support cost estimates with competitive bids or quotations, although in some cases applicants submit such information voluntarily. Project analysis focuses more on general benefit to the community, through enquiries made to community groups and Members of the Legislative Assembly, than on financial assessment. We also found that appropriate financial statements were not always sought by the Ministry to enable it to assess need adequately, although the financial need of the applicant is one of the evaluation criteria stated in the eligibility guidelines.

We believe, at least for larger projects, that the evaluation process should include a standard financial analysis of submitted cost estimates and financial statements, so that the Ministry can ensure that grant commitments made are reasonable, and so it can assess the financial need of the applicant. To perform this analysis adequately, the Ministry should require applicants to submit current financial statements, support for cost estimates, and, wherever possible, evidence of competitive bids or quotations.

For government-initiated special grant funding, we found that the Ministry had not always ensured that expenditures were reasonable in the circumstances or that adequate accountability of recipients was put in place. For example, Science World was funded without a formal agreement between the Ministry and Science World, although the federal government, also a funding agent for the project, had such an agreement.

In another case, the Premier's Office made a commitment in July 1987 to pay $500,000 for the production of a half hour video showcasing the Vancouver Symphony Orchestra and the Province of British Columbia, without documented analysis to determine if the cost was reasonable. A conditional grant agreement was arranged with the video producer. The agreement indicated that any proceeds received by the producer resulting from the use or disposition of the video would be paid to the Province, up to the amount of the grant. The agreement did not, however, include comprehensive terms and conditions of performance. The agreement was later verbally renegotiated to expand the video length to one hour, for a revised total cost of $660,020. The additional $160,020 was recovered by the producer from the first sale of the video and, to November 30, 1989, the Province also had received $100,000 from video sales. The change in the terms of the grant agreement was not put in writing until the summer of 1989, at which time the wording of the original agreement was also strengthened.

We believe that large, complex funding arrangements warrant formal agreements which include terms and conditions of performance. We also believe that, where fixed cost agreements are intended, bidding should be called for whenever possible. At a minimum, where bidding does not take place, an analysis of the project cost — supported by documentation — should be done to determine if it is reasonable.

Funding Levels

For defined grant programs, published guidelines indicate the level of assistance available. For example, the current guidelines for regular capital grants state that equipment and construction projects are to be funded up to one-third of the cost. We noted several grants, however, where funding exceeded that stipulated in the guidelines. As we have already noted, the guidelines should be applied more consistently, and a standard process for dealing with exceptions should be developed.

Accountability

Publication of grants made is an effective way of allowing public scrutiny and thus providing some accountability. The Ministry annually publishes a list of the grants it has paid in the year. However, since the listing is one of payments rather than of grants approved, it does not represent complete funding commitments. We believe that a listing of grants approved, as well as grants actually paid, would be more informative.

Furthermore, the annual listings do not include all grants paid. The listing for the 1987/88 fiscal year, for example, did not include special events grants, communication grants, or donations to charities. It also showed only the total amount paid to B.C. Film and the British Columbia Health Care Research Foundation, without listing the individual grants or loans made in turn by those organizations, although detailed listings are available from the individual organizations themselves. We think the Ministry should include details of all grants in its published listing.

Monitoring Approved Use

For the over 2000 small in-province travel grant expenditures made each year, the Ministry does not specifically monitor for approved use after the fact. Instead, it limits the number of trips per organization per year, limits the maximum grant per trip to $2000, and checks the reasonableness of distance claimed. We believe this is not unreasonable in the circumstances.

For regular capital grants, the Ministry has a general policy of releasing grant monies only after the applicant has made the expenditure. An exception is the GO B.C. program where one-third of the grant can be released at the start of a project. The guidelines for regular capital grants state that it is the applicant's responsibility to obtain any interim financing required. We found, however, that the Ministry has sometimes released funds for regular capital grants before expenditures have been made by the applicant. We believe that published guidelines should be applied consistently or be changed to correspond with desired policy.

The Ministry requires that proof of expenditure be submitted for capital grants. For construction project grants in excess of $50,000, for example, audited statements of expenditure are required before the final portion of the grant is paid. This is an effective way to monitor approved use. We found that, for non-construction projects, standards of what provides acceptable proof of expenditure have not been established. A number of general types of capital acquisitions are funded, and for each of these we believe there should be standard requirements for proof of expenditure, clearly conveyed to applicants. For purchases of real estate, vehicles, or heavy equipment, for example, we believe the Ministry should require proof of transfer of title into the name of the funded organization, as well as proof of cost.

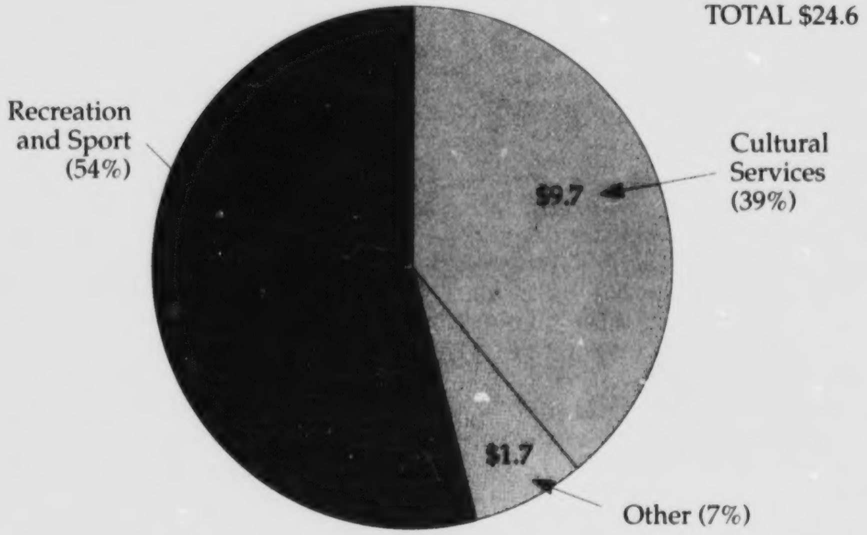
Municipal Affairs

Municipal Affairs made Lottery Fund expenditures totalling $24.6 million in the 1988/89 fiscal year. This excluded $2.1 million given to British Columbia Heritage Trust to administer and $5 million, set aside through a ministry-controlled society, to fund current and future municipal downtown revitalization projects. Most expenditures are grants made to supplement the annual operating costs of recreation and sport organizations and cultural groups (see Figure 5.4). In this Ministry we focused on the cultural services and recreation and sport grant programs because they represent the two largest categories of grant expenditures.

FIGURE 5.4

Lottery grants, excluding transfers to other government special purpose funds or accounts, administered directly by Municipal Affairs for the 1988/89 fiscal year ($ in millions).

Source: Ministry of Municipal Affairs, Recreation and Culture



Equitable Access

Establishing Guidelines

The grants target specific types of organizations for annual funding. We found that clear eligibility criteria exist for newly applying groups, and that the Ministry communicates well to organizations about the availability of the grants and the eligibility criteria. The Ministry notifies all provincial sports governing bodies and cultural groups, on a timely basis, of application deadlines and changes in eligibility, and provides clear eligibility guidelines in standard application packages.

The Evaluation Process

Unlike Provincial Secretary, Municipal Affairs deals mostly with recurring operating grants to established organizations. So, while there are eligibility criteria for newly applying groups, assessing initial eligibility is less of an issue than deciding appropriate annual funding levels.

The Ministry requires applicants to provide information, such as budgets, projected and prior year program information and statistics, and the previous year's financial statements. Ministry staff and, in the case of the Cultural Services Branch, outside advisers are involved in evaluating eligibility and determining funding levels. The British Columbia Arts Board, for example, reviews staff recommendations for operating grants to arts organizations. In Cultural Services, standard detailed financial analysis is performed to help the Ministry ensure that suitable funding levels are provided to viable organizations. In the Recreation and Sport Branch, however, such analysis is not performed. Recreation and Sport staff do attend annual general meetings and other functions of applicant organizations but, in our opinion, this is not enough to ensure that appropriate funding level decisions are made. We believe that standard financial analysis should be performed and documented for all potential grant recipients.

Accountability

We believe that publication of grants made allows current and potential grant recipients to scrutinize the grants, and thus provides some accountability. However, publication of grants is left to the discretion of each branch of the Ministry. Cultural services grants paid are listed, by program, in an annual report; grants paid by British Columbia Heritage Trust are listed in its annual report; recreation and sports grants, and downtown revitalization grants are not published at all. We believe the Ministry should ensure the publication of all grants.

Monitoring Approved Use

The annual assessment process includes both an evaluation of the current year's requested funding and a monitoring of the previous year's usage of funds. Before making an annual operating grant, the Ministry examines how the previous grant was used. As described above, the requesting organization is required to submit the prior year's audited financial statements and program statistics.

However, analysis of financial statements is useful only when the statements can be reasonably compared to project funding, as set out in the original grant application. For the Recreation and Sport Branch, such a comparison is often impossible because the Branch requires budget information by program, a format that is rarely used in audited financial statements. Because of this, we believe the Branch cannot be sure that funds are being spent for approved purposes. A study of the problem, already conducted by the Branch, suggested that it either change its budget submission requirements or request specialized audited information. We encourage the Branch to resolve this issue as soon as possible.

Response of the Ministry of Provincial Secretary

The Lottery Grants Program has made a significant contribution to improving the quality of life in British Columbia by supporting a wide range of community projects and organizations. Grants have been awarded for community improvement projects as well as health, environmental, cultural and recreational initiatives.

Since its inception in 1988, the GO B.C. program's investment of $50 million in community initiatives has triggered almost $200 million in economic activity throughout the province.

The review of the lottery grant program by the staff of the Auditor General confirmed that grants were being made to bona fide organizations and for purposes that appeared to have community benefit.

The guidelines for the lottery grant programs have been clarified. The regular capital grant program and GO B.C. have been amalgamated into one program. The travel grant program has been clearly defined as applying only to in-province travel assistance. The application forms are being revised to clarify for grant applicants the nature of the projects covered by the program, the maximum funding levels and the documentation required.

There will be projects which by their very nature do not fit into an established grant category. In this respect, the demands on the lottery grant program are no different from those made on other government programs to respond to community needs. The program must be responsive to projects which have a demonstrable community benefit. There will be occasions, therefore, when exceptions have to be made.

To ensure equity and consistency in dealing with these special cases, a committee of four Cabinet ministers, chaired by the Provincial Secretary, has been established to review and approve or reject grant requests that involve an exception to the guidelines or fall outside of an existing grant program.

In addition, this committee of Ministers will approve or reject all grant requests over $150,000.

The administrative procedures associated with the review of grant applications and the monitoring of approved grants have been strengthened. These changes include:

- *the requirement that all grant requests be reviewed by the Lottery Grants Branch with sufficient documentation provided to enable an effective evaluation of the request;*
- *the requirement that grant recipients use competitive bidding procedures for purchases over $50,000;*
- *a requirement that the ownership of assets acquired as a result of a grant be held in the name of the grant recipient; and*
- *the need for more detailed documentation for larger projects, including site visits, before the final payments are made.*

In order to increase public awareness of the types of projects funded, the Provincial Secretary will issue an annual report within two months of the close of the fiscal year, listing all grants approved during that year together with any payments made to grant recipients.

In addition, the Provincial Secretary will require as a condition of funding, that other public bodies, which are given lottery funds for the purpose of making grants, issue an annual report on a timely basis listing all the grants approved together with payments made to individual grant recipients. These currently include the Ministry of Municipal Affairs, Recreation and Culture, the Health Care Research Foundation, B.C. Film and the Heritage Trust.

In the audit report reference was made to the review of the GO B.C. program by the Comptroller General.

Along with a call for a special advisory committee of Cabinet Ministers, the Comptroller General recommended a strengthening of the requirements for essential documentation; greater involvement by senior Ministry officials in the lottery grant program; the use of a competitive bidding process for major purchases by recipient organizations, and a strengthened set of GO B.C. program guidelines.

All of the Comptroller General's recommendations have been implemented.

Public Gaming: Licensing and Control

An audit of the government process for licensing and control of public gaming in British Columbia

Audit Purpose

In January 1988, the British Columbia Gaming Commission ("the Commission") released a report on gaming in the province, with an overall view as to how the province could ensure that "charitable organizations earn the maximum revenue for their worthwhile endeavours, while acknowledging the fundamental principle of government not to encourage unregulated growth or expansion in gaming activities."

Using the Commission's report as a starting point, we conducted an audit to determine whether the Commission and the Public Gaming Branch ("the Branch") of the Ministry of Solicitor General had adequate procedures in place to:

- ensure that only eligible organizations having a demonstrated need to raise funds for a charitable purpose are licensed;
- minimize the risk of fraudulent activity in the gaming industry;
- ensure that proceeds from gaming are used for approved charitable purposes; and
- enable charitable organizations to obtain the greatest possible monetary benefit from licensed gaming activities.

We focused on bingo and casino activities because these activities are estimated by the Commission to involve 90% of the total amount of money handled in licensed public gaming. Procedures were evaluated as of July 1989 and financial reporting and accountability of licensees were reviewed for the 1988/89 fiscal year.

Conclusion

The Commission and the Branch recognize the major risks inherent to gaming, and have developed several initiatives to address them. These initiatives include establishing new policies and procedures, developing uniform controls and reporting standards for casinos and bingos, devising a long-term inspection strategy, and computerizing the information system. We believe these initiatives are positive steps, though many of them had not been implemented at the time of our audit.

We therefore concluded that there was inadequate assessment of the financial needs of charitable organizations and insufficient checking on whether the organizations used their gaming proceeds only for approved charitable purposes. Furthermore, not enough was being done to ensure that gaming events were being managed and operated in a way that minimized the risk of fraudulent activity. Also, because the Commission or the Branch have not adequately addressed two important areas — the appropriateness of established minimum returns of gross proceeds to charitable organizations, and the reasonableness of rental charges made by bingo hall landlords — we believe they are not in a position to assess whether charitable organizations are receiving the greatest possible monetary benefit from licensed gaming activities.

Gaming in British Columbia

In April 1970, the Province began licensing charitable organizations to conduct public gaming within its boundaries. The Province regulates gaming activities under the authority of the *Criminal Code* of Canada, which states that a charitable or religious organization ("charitable organization") may obtain a licence from the Province for gaming activities if the proceeds are used for a charitable or religious object or purpose ("charitable purpose"). Over the last 10 years, licensed gaming activity has grown by more than 1,600%, bringing with it the need for increased regulation and monitoring (Figure 5.5). The Commission was established on April 1, 1987, to set policy for gaming within the province and to be the licensing authority for charitable events, setting the terms and conditions of licences issued. The terms and conditions relate to the licensing, conduct, management, operation of, and participation in approved forms of gaming in British Columbia. The seven commissioners are appointed by Order-In-Council.

Before the Commission was established, all inspection, compliance, regulatory and licensing activities were carried out by the Branch. The Branch is currently responsible for assisting the Commission in its licensing role by

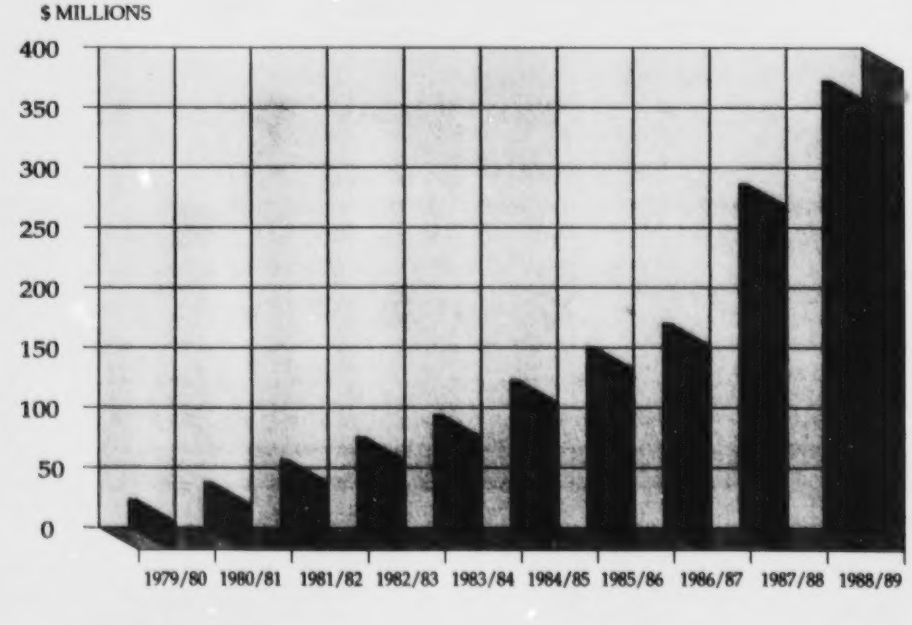


FIGURE 5.5

Gaming volumes for the 1979/80 to 1988/89 fiscal years

Source: Ministry of Solicitor General

evaluating and making recommendations on licence applications. It is also responsible, through inspections and audits, for monitoring compliance with the terms and conditions of licences granted.

In the 1988/89 fiscal year, over 115,000 gaming events were held throughout the province, and almost 10,000 public gaming licences were issued or renewed. Licensees received over $82 million as their share of gaming proceeds (see Table 5.1). That figure is expected to increase in the 1989/90 fiscal year. A geographic profile of gaming in British Columbia is shown in Figure 5.6.

Bingo sessions are run by individual charitable organizations or community associations thereof. Casinos are also run by individual charitable organizations, but they are assisted by professional casino management companies which provide control over all dealers, supervisory personnel, equipment, and facilities.

A significant motivator for all participants in gaming is the money involved: financial support for the participating charitable organizations, prizes for the players, and profits for the commercial interests (such as hall landlords and casino companies). Given this motivator and given that considerable amounts of cash are involved in gaming, there are inherent risks of fraudulent activities occurring, ineligible organizations receiving licences, and proceeds being used for non-charitable purposes.

TABLE 5.1

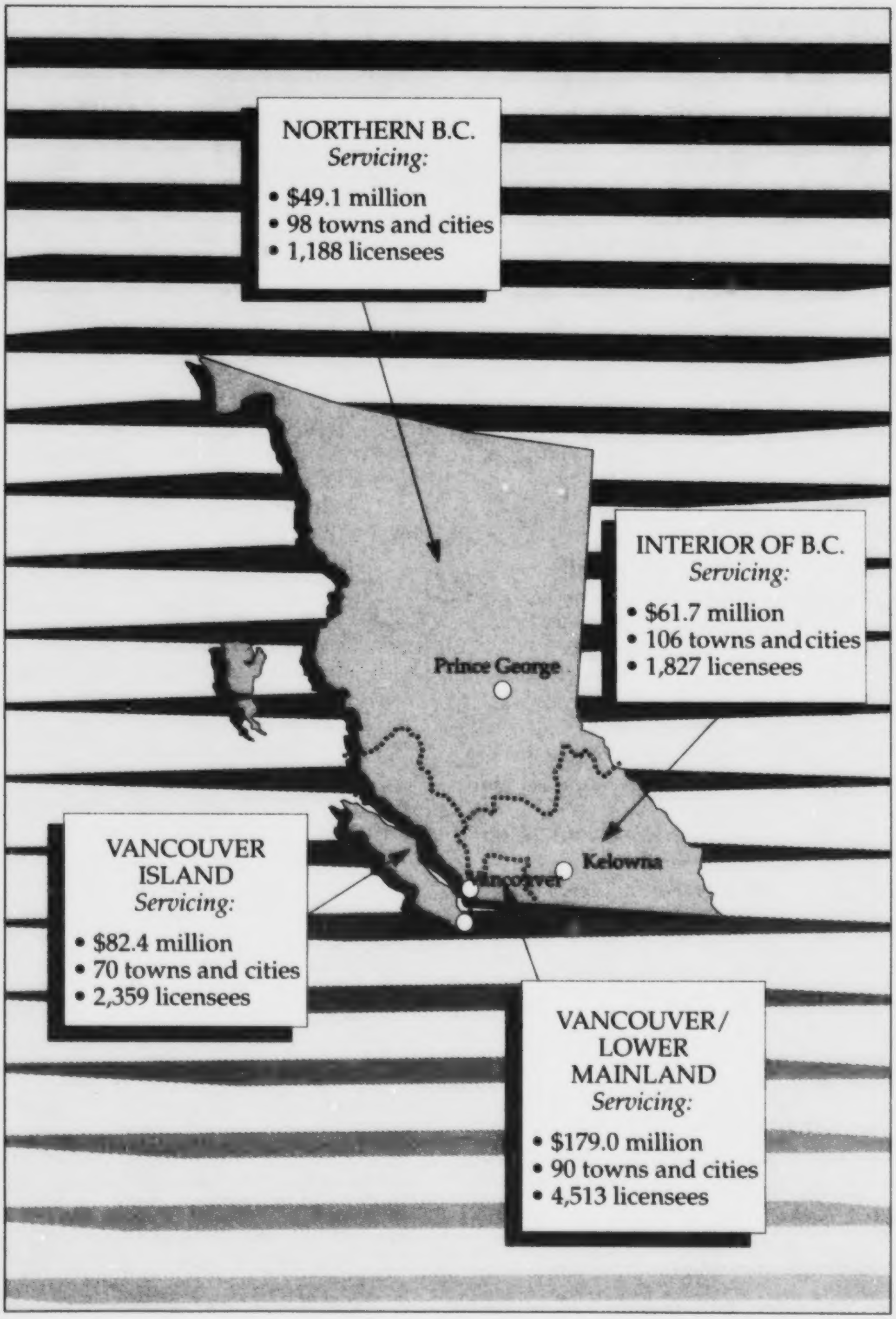
Gaming activity and estimated financial impact for the 1988/89 fiscal year

Source: Ministry of Solicitor General

Event	Number of Licences	Gross Volume[1] ($ millions)	Prizes ($ millions)	Expenses ($ millions)	Paid to Charity ($ millions)
Bingo	2,100	223	125	42	56
Casino	2,900	119	85	17	17
Ticket raffle	1,000	15	5	4	6
Others[2]	3,900	15	8	4	3
	9,900	372	223	67	82

[1] Gross volume represents revenue from the sale of casino chips, bingo cards, raffle tickets, and playing time charges for social clubs.

[2] "Others" consist of class "B" licences (events under $2,000 gross volume), festivals, one-time events, and social club activities.



NORTHERN B.C.
Servicing:
- $49.1 million
- 98 towns and cities
- 1,188 licensees

INTERIOR OF B.C.
Servicing:
- $61.7 million
- 106 towns and cities
- 1,827 licensees

VANCOUVER ISLAND
Servicing:
- $82.4 million
- 70 towns and cities
- 2,359 licensees

VANCOUVER/ LOWER MAINLAND
Servicing:
- $179.0 million
- 90 towns and cities
- 4,513 licensees

FIGURE 5.6

Geographic profile of gaming in British Columbia as at December 31, 1988

Source: Ministry of Solicitor General

Licensing

The licensing process is the means by which the Commission and the Branch seek to ensure that only charitable organizations can raise funds from gaming, and that those funds will be used only for legitimate charitable purposes, thereby complying with the *Criminal Code*. The licensing process also should provide equitable treatment of eligible organizations through an assessment of financial need, checks to see that multiple licenses are not issued unnecessarily, an unbiased allocation to licensed organizations of time slots in casinos and bingos, and public disclosure of licenses issued.

Licensing of charitable organizations is a multi-phased process. The Branch first evaluates each application to ensure the applicant is a bona fide charitable organization. Next, it determines if the proceeds will be used for charitable purposes and then assesses the financial need of the organization. Finally, it forwards its recommendation to the Commission, where a commissioner makes the final licensing decision. Licences are granted for up to a set number of gaming events, for a period not exceeding one year. Licensees have to reapply at the end of the licence period if they wish to continue their gaming activities.

We found that although the Branch seeks appropriate information to assess licence applications, it does not ensure that the information it receives is complete. Furthermore, licensing officers are not given sufficient training and guidance to be able to adequately analyze the financial data received, and thereby to assess an organization's need. As a result, some organizations may be allowed access to gaming proceeds beyond their needs.

Charitable Purpose

To be licensed, the Commission has determined that an organization must have as its primary purpose one of the following classifications of charity:

- the relief of poverty, disadvantage, and distress;
- the advancement of education, culture, and the arts;
- the advancement of religion; or
- other purposes beneficial to the community, including amateur sports, public safety and public facilities, festivals/exhibitions, and service, fraternal, and veteran organizations.

Also, an organization must have demonstrated activities in line with these purposes.

The charitable purposes for which applicants intend to use the proceeds are also reviewed by the Branch and approved by the Commission. To assess charitable purposes properly, and to ensure that organizations are assessed in a consistent manner, specific guidelines are required. Before October 1989, policy statements defining charitable purpose were not available to Branch personnel. Detailed policy statements have since been developed, and we believe they will provide reasonable guidance to the licensing officers.

Financial Need

The financial criteria an organization must meet before a bingo or casino licence will be issued to it are specified on the application for the gaming event licence. The Branch requires the applicant to submit certain basic information such as budgets and financial statements, and it can request additional information if required. We found, however, that the Branch does not always receive the basic information and, therefore, adequate financial analysis sometimes cannot be performed.

Our examination of a sample of files for organizations licensed in the 1988/89 fiscal year showed that some basic required financial information was missing from more than half of the files. Without this information, it is difficult for the Branch to determine the financial need of an organization. Furthermore, we noted in several files that concerns arising from submitted data were not looked into. For example, one organization had approximately $35,000 in surplus funds carried forward from one year to the next, but there was no indication as to how these funds were to be distributed.

We believe that the basic information requirements should be pursued. Also, more training and guidance should be provided to licensing officers. For example, a checklist of procedures to be followed by licensing officers when assessing financial need would, we believe, help the officers.

Most of the licensees' files we saw did not contain a summary assessment to support the recommendations by the Branch or the final decisions by the Commission, even where a commissioner had overruled the Branch's recommendation. We believe that the rationale for all licensing recommendations and decisions should be well documented to minimize the risk of inappropriate licensing decisions. In those cases where a commissioner overturns a Branch recommendation, we think it would be desirable for a second commissioner to confirm the decision.

Multiplicity of Licences

Currently the Branch manually monitors the number of licences issued and the distribution of funds among related organizations. We think the manual method is inadequate to deal with the volume of licences and locations involved. Without an effective data collection system, it is difficult for the Branch to determine whether multiple licences are being issued to the same, or closely related, organizations and, thus, how much funding is being generated for similar purposes.

The Branch has recognized weaknesses in the present system, and is currently in the third phase of a proposed four-phase computerization plan. Phase 3 is designed to streamline the licensing process and to provide the licensing officers with more complete information.

Gaming Session Allocations

The Branch allocates time slots in casinos to every organization with an approved casino licence. For bingo licensees, however, it is the associations of charitable organizations or the hall operators who allocate vacant time slots. Because the Branch does not maintain complete listings of charitable organizations which have been unable to secure time slots in bingo halls, it cannot tell whether eligible organizations have equitable access to bingo events. We understand, however, that the computerization plan referred to above will enable the Branch to take on the job of allocating these time slots for bingo licensees, and to better evaluate the opportunity for equitable access.

Reporting to the Public

A listing of charitable organizations licensed for gaming activities is not published by the Commission or the Branch. We believe that the annual publication of such a listing would allow broader public scrutiny of licensing decisions.

Controls Over Gaming Activities

Large amounts of cash flow through the hands of many people at gaming events. This creates opportunities for fraudulent or unethical practices to occur, such as skimming (the practice of under-reporting income from the game and pocketing the difference), falsification of records to create the impression of compliance with Branch requirements or to hide theft, and cheating at casino gaming tables. These risks can be minimized through the investigation of the legitimacy of gaming operators, the establishment of standard operating procedures for gaming events coupled with a comprehensive program of inspections, and adequate control over bingo paper.

Legitimacy of Gaming Operators

The Commission and the Branch require registration of bingo hall operators and casino management companies for all commercial locations in the province. During the registration process, the background of each applicant is examined. The examination covers: the method of financing; expertise in gaming; associates; the security and safety of the facilities; and any other aspect considered to be relevant. This process helps to ensure that charities and patrons will be efficiently and honestly served.

Standard Operating Procedures

As of December 1, 1989, casinos in the province will be required to operate under uniform controls and reporting standards developed by the Branch. These controls and standards will provide reasonable direction and should help minimize the risk of fraudulent activity at casino operations. However, uniform controls and reporting standards have not yet been developed for bingo operations, although the Branch has recognized the need for them. We think that uniform procedures would help the Branch promote a better understanding among organizations of the controls necessary to minimize the risk of fraudulent activity. For example, inventory controls should be required for bingo paper. In addition, bingo papers sold should be reconciled to cash received and deposited. Standard procedures should also be required for the reporting and distribution of prizes, at each event. Standard procedures would help the organizations operate their events more efficiently, and would allow the Branch inspectors to monitor activities more effectively.

Inspections

The Branch is responsible for enforcing the terms and conditions of gaming event licences, improving the management and integrity of gaming events, and identifying and investigating regulatory violations. However, inspection activities carried out by the Branch to date have been mainly in response to public complaints rather than through a systematic inspection plan.

During the period from April 1987 to September 1989, there were 19 known instances of gaming-related fraudulent activity, resulting in over $312,000 of misappropriated funds. These instances all came to light as a result of concerns raised by licensees, and not from inspections conducted by the Branch.

According to Branch records, current inspection activity covers 19% of licensees and 8% of gaming events annually. Also, inspections are generally "overview" visits, consisting of general reviews of the gaming events, rather than detailed inspections of operating controls and financial records. Without thorough examinations of operations, we think the risk of undetected irregularities remains high. The Branch has developed an inspection plan which will involve more systematic and detailed inspections. The Branch is also going to require regular training for inspectors to ensure they are up-to-date. We encourage early and full implementation of these initiatives.

Bingo Paper

Over 1 billion "faces" of bingo paper are sold annually by licensed organizations. Strong controls over bingo paper, from the initial production through to the end use, are needed to minimize the risk of unlicensed events, or the under-reporting of revenue from licensed events. One important step in this regard was that in 1986 the government appointed a government agency, the British Columbia Lottery Corporation, as the sole distributor of bingo paper in the province. The terms and conditions for the licensing of bingo events specify that bingo licensees giving total prizes of more than $1,000 per event must use this paper. At the time of our audit, a comprehensive review of controls over bingo paper was undertaken jointly by the Corporation, the Commission and the Branch, with the assistance of a consultant. The subsequent findings indicated that, to reduce risk, inventory controls need to be improved.

Using Proceeds For Approved Charitable Purposes

The terms and conditions of licences indicate that an eligible organization shall not use net proceeds from licensed gaming events for any purposes other than those from the four classifications of charity described earlier. In our opinion, the Branch does not have adequate procedures to provide it with assurance that proceeds from gaming activities are used only for approved purposes.

Licensed organizations are required to provide the Branch with financial reports on gaming sessions. These reports, however, do not provide specific details on how proceeds were spent for charitable purposes. At the time of application for relicensing, organizations must submit financial statements, but these do not normally provide enough expenditure details to allow the Branch to determine if proceeds were used only for approved purposes. Also, although licensed organizations are supposed to maintain separate accounts into which all gaming proceeds are to be paid, and out of which disbursements are to be made only for approved purposes, we found that separate accounts are not always maintained in the required manner.

The Branch does not regularly audit licensee records to check that proceeds are used for approved purposes. We reviewed the records of several licensees, and in all cases found that some of the proceeds did not appear to have been used for approved purposes. The Branch is following up these cases with the licensees concerned.

As a result of our findings, the Branch has recently begun calling in records of licensees on a more regular basis. We think this is a step in the right direction. The Branch could also consider introducing additional reporting requirements for licensed organizations, such as statutory declarations.

We found that the Commission had not adequately communicated to licensed organizations all restrictions on the use of proceeds. If it did, we believe the inadvertent misuse of proceeds by the organizations would be reduced.

Maximizing Benefit to Licensed Charitable Organizations

Some of the factors identified by the Commission and the Branch as having an impact on the financial benefit to charitable organizations from gaming are:

- the economic viability of gaming locations;
- the efficient and effective management of operations at gaming events;
- the controls over expenditures, such as prizes, rent, wages, advertising, and supplies; and
- the financial dependence of the charitable organizations on the gaming proceeds.

The Commission and the Branch have taken some steps to deal with these issues. Casinos are currently confined, by Commission policy, to 18 locations in the province. Also, some bingo locations have been closed down where the economic viability was insufficient to warrant continued operation. The formation of community associations of charitable organizations has been encouraged and, in addition to its regulatory role, the Branch has acted as an advisor to promote more effective management of operations. Limits have been set on the amounts organizations can spend on advertising, and minimum returns of gross proceeds to charitable organizations have been established for casinos and bingos. We believe, however, that in the area of expenditure control, two issues have yet to be adequately addressed: the appropriateness of the minimum returns, and the reasonableness of rent charges

Minimum Return of Proceeds

The Commission has established that, for casinos, the management companies receive 40% of the "win" (proceeds from the sale of chips less chips cashed) to cover expenses of the operation; the charitable organizations receive 50%; and the government receives a 10% licence fee. The Commission has also established that, for most bingo sessions, charitable organizations must receive a minimum of 25% of the gross proceeds, with 2% going to the government and the balance used for prizes and expenses of the operations.

The above percentages for charitable organizations must be met before payment is made to the casino management companies or to the bingo operators for the rent and wages for bingo sessions. Neither the Commission nor the Branch has ever evaluated the appropriateness of these percentages. We believe an evaluation, followed by periodic reevaluations, is required to ensure that the percentages are appropriate.

Rental Charges

The largest expense, excluding prizes, incurred by charitable organizations in running a bingo is the rent charged by the hall landlord. In its 1988 report, the Commission raised a concern over the potential for exorbitant rent charges but, despite this concern, neither the Commission nor the Branch has dealt with this issue. We believe that along with the Commission's authority to regulate the number and location of halls goes the responsibility to ensure that rents being charged are not unreasonable. Therefore, we encourage the Commission and the Branch to address this identified concern.

Response of the Ministry of Solicitor General

The Ministry of Solicitor General welcomes the Auditor General's appraisal of the management and operations of the Public Gaming Branch.

In April 1970, the Province began licensing charitable organizations to conduct public gaming. Over the last 10 years, licensed gaming has grown by more than 1,600 percent, bringing with it the need for increased regulation to ensure that fairness and integrity are maintained. During this same period, the Branch went from six employees in 1985, to 42 in 1988.

At the time of the audit the Branch was undergoing a fundamental restructuring and several of its major procedures were in the drafting stage. These initiatives included new policies and procedures, uniform controls and reporting standards, a long-term inspection strategy and computerizing the Branch information system.

Specific comments on the issues raised by the Report follow:

Ensuring Complete Licence Applications

The Branch now has procedures to ensure that information supporting applications is complete. The Licensing Officers now assign dates and locations for casino events throughout the Province and have introduced common licensing years for licensees in the Province's bingo halls. The Branch can exercise more control over the pace at which licences are processed. This will provide more time for Licensing Officers to obtain complete information without creating undue delays in the processing of applications.

Training

The Ministry is confident that Licensing Officers can adequately analyze financial data supporting an application for licence. Additional training and guidance will be provided over the next 12 months to enhance the effectiveness of the licensing staff.

Inspectors have recently completed out-of-province training to aid them in their investigation of casino gaming events. The Branch's capability in bingo inspections is at least as good as the best in Canada. Training of new staff in bingo inspection will be done in-house.

Financial Need and Use of Proceeds

Procedures by which Licensing Officers assess financial need will be implemented in mid-1990. The Branch is improving financial reporting requirements to include better information on use of proceeds. New audit procedures require separate accounts for gaming proceeds. In addition, the Commission has published articles in its newsletter, News & Views, to ensure licensed organizations are aware of the restrictions on use of proceeds. These initiatives will ensure that proceeds from gaming activities are used only for approved purposes.

Minimum Return of Proceeds

The Commission and Branch both agree that an evaluation of the minimum return to charities from gaming is required. Although the percentage returns to charitable organizations required in British Columbia are the highest in any North

American jurisdiction, evaluations should be done on a regular basis.

The Branch is currently developing standard procedures for bingo operations to minimize the risk of fraudulent activity. Bingo standard procedures will also help the charities operate their events more efficiently, and improve the Branch's capacity to monitor effectively. Casino standard operating procedures were introduced in the fall of 1989.

A mandatory training program for casino volunteers was introduced in December 1989. A similar training program is planned in the summer of 1990 for bingo volunteers, in conjunction with publishing of the bingo standard procedures. These training programs are an excellent vehicle for ensuring volunteers are aware of their obligations and role in maintaining the integrity of charitable gaming.

Inspections

The Branch believes it has made considerable progress in identifying and investigating regulatory violations over the last 12 months. An inspection strategy is in place and additional inspection staff have been hired. The number of routine inspections has been increased.

Reporting to the Public

The Branch is reviewing its capacity to annually produce and publish a listing of charitable organizations licensed for gaming activities.

The Ministry is confident that the policies and procedures already initiated, and those planned for implementation over the next 12 months, will meet or exceed the expectations raised by the Auditor General's Report.

Reporting the Results of Privatization Transactions

A review of the government's reporting of the financial results of privatization transactions

Audit Purpose and Scope

In this audit, we assessed whether the government followed the most appropriate basis of reporting the financial results of privatization transactions.

As a part of our review, we examined the balance sheet of the Privatization Benefits Fund as at March 31, 1989, and the statement of revenue and expenditure for the year then ended. These financial statements are shown on pages B 19 and B 20 of Volume I to the 1988/89 Public Accounts as supplementary statements to the government's Combined Financial Statements.

During this audit, we did not review the way in which the proceeds allocated to the Privatization Benefits Fund were invested, how the investment portfolio was managed, or how the portfolio performed. Nor did we evaluate the value for money achieved from any privatization, either from the sale or from net ongoing operational cost savings. We focused solely on issues relating to the reporting of the results of the sales transactions.

Overall Conclusions

We found that the government's accounting for the 46 sales designated by Cabinet as "privatization transactions" to March 31, 1989, and as shown on pages A 15, B 19 and B 20 of Volume I to the 1988/89 Public Accounts, complied in all material respects with the provisions of the *Privatization Benefits Fund Act* and with the government's stated accounting policies.

However, we concluded that the reporting by government did not represent the most appropriate basis for presenting the financial results of all privatization transactions. We believe that Members of the Legislative Assembly should be provided with more complete financial information. In particular, we believe they should be provided with information about certain relevant costs that are not reflected in the financial statements of the Privatization Benefits Fund, and about the financial results of privatization transactions that result in accounting losses.

The Privatization Program

On October 23, 1987, the Premier announced the Privatization program. On the same day, he named two Crown corporations and 11 government operations that would be sold or transferred to the private sector. Action groups had already been formed to report on the privatization of another four government operations. Every government activity and program was to be reexamined and, where appropriate, privatization options "pursued actively." Three deputy ministers formed a Privatization Implementation Committee to coordinate all privatization efforts and to make recommendations to Cabinet. To support this committee, individuals were seconded from ministries or contracted from the private sector to form a Privatization Working Group. A Privatization Benefits Fund was established shortly after that to hold the proceeds from privatizations, and a new communications system — Info Line — was published to keep government employees and the public informed about privatization developments. In short, Privatization was introduced as a major government program.

The first formal accounting for the financial results of privatization transactions was presented by the government in its Combined Financial Statements for the fiscal year ended March 31, 1989. We conducted this audit to provide an independent review of that accounting.

The Accounting Provided

The Privatization Benefits Fund came into being with the passage of the *Privatization Benefits Fund Act*. This Act was passed on May 30, 1988, but was given retroactive application to April 1, 1988. It states:

> Where the government receives the proceeds of a privatization transaction that has been designated as such by the Lieutenant Governor in Council . . ., the Minister of Finance and Corporate Relations shall pay all or a portion of the proceeds, as specified by the Lieutenant Governor in Council, into the fund.

In other words, the Act says that Cabinet must designate a sale as being a "privatization transaction" for it to be considered one where the sale proceeds may go to the Privatization Benefits Fund. Then, Cabinet decides how much of the proceeds should be paid to the Fund.

Thus, the Act presented to and passed by the Legislative Assembly left it to the government to administer the Privatization Benefits Fund, and to decide on how to account for it. To do so, the government needed more specific definitions of the key terms contained in the *Privatization Benefits Fund Act*. Accordingly, Treasury Board approved a policy containing working definitions that could be used to administer the Act. The policy document refers to three objectives for the accounting for privatization transactions: neutrality, consistency, and rationality. To quote the document, "[t]he declared policy of the Fund is to clearly separate the one-time revenues of the government resulting from privatization from the ongoing operations of the General Fund. . . . Therefore, . . . [the accounting should] ensure that the effects on the General Fund are neutral." The document also states, "It is essential for the public policy that underlies the formation of the fund that all proceeds paid into the fund are determined using a consistent and rational basis."

The policy contained two important definitions – one for a "privatization transaction" and another for "proceeds" – that Treasury Board could use in making its recommendations to Cabinet. The notes to the March 31, 1989 financial statements of the Privatization Benefits Fund disclose the important parts of these definitions.

For instance, while the policy definition of a "privatization transaction" is not fully disclosed in the financial statements, the critical part of the definition, which states that those privatizations that result in losses will not be designated as privatization transactions, is disclosed. The missing portion ("A privatization transaction transfers the performance of a service from government or a government-controlled entity to a privately-owned entity in order to reduce costs, improve efficiency, reduce the size of government or improve service.") may be expected to be generally and widely understood.

Similarly, the essence of the definition of "proceeds" is clearly disclosed: "proceeds are defined as the proceeds of privatization transactions net of selling costs and any book value of the assets sold." The more detailed Treasury Board policy definition also states that proceeds are recorded at net present value, and specifies certain types of repayments of investments that would be excluded from the accounting calculations. However, because such details might provide more confusion than enlightenment, they were not disclosed in the financial statements.

Compliance With the Stated Accounting Policies

We examined the 46 sales designated by Cabinet as "privatization transactions" to March 31, 1989. As shown by the summary in Table 5.2, the Province received over $1 billion from these sales, of which $308.5 million went into the Privatization Benefits Fund. We found that the government's accounting for these transactions, as shown on pages A 15, B 19 and B 20 of Volume I to the 1988/89 Public Accounts, complied in all material respects with the provisions of the *Privatization Benefits Fund Act* and with the government's stated accounting policies.

The clause "in all material respects" is used in the preceding paragraph because we believe the Fund is overstated by $5.4 million in respect of the Expo lands sale.

In the case of the sale of the False Creek lands (the former Expo site), the selling price included future payments which had a present value of $20 million. These payments will only be made if certain conditions are met over the next 15 years. Under generally accepted accounting principles, these amounts must be deferred when calculating the gain or loss on the transaction until there is reasonable assurance that the relevant conditions will be satisfied. After due consideration, British Columbia Enterprise Corporation did not include these amounts as revenue from land sales in its March 31, 1989 consolidated financial statements.

TABLE 5.2

Disposition of the funds received from designated privatization transactions

Transaction	Selling price	Selling costs	Book value	"Proceeds" paid to fund
		(In Thousands)		
B.C. Hydro				
i) Mainland Gas	$741,000	$95,000	$461,200	$220,270
ii) Rail	35,470			
B. C. E. C.				
i) Expo Lands	145,010	-	139,658	5,352
ii) Other	45,046	-	7,235	37,811
Government				
Road and Bridge Maintenance	36,884	424	-	36,460
Forest Nurseries	5,667	140	-	5,527
Sunshine Golf Course	1,000	25	-	975
Langford Sign Shop	860	25	-	835
Environmental Lab	850	-	-	850
Prov. Education Media Centre	243	57	124	62
Food and Dairy Lab	216	-	-	216
Kelowna Soil Lab	140	2	-	138
Other	22	-	-	22
Total	$1,012,408	$95,673	$608,217	$308,518

The Province, however, believing there was sufficient assurance that the conditions would be met, included this amount in its calculation of the "proceeds" transferred to the Privatization Benefits Fund.

Had the Province, in its accounting for the Privatization Benefits Fund, followed the same basis of accounting for these future payments as had the British Columbia Enterprise Corporation, the transaction would have shown a loss. Therefore, the sale would not have qualified under the government's stated accounting policies as one which could be designated as a "privatization transaction" and, accordingly, the Fund would not have been credited with "proceeds" of $5.4 million.

Concerns with the Reporting of Privatization Transactions

The accounting policies adopted by the government to account for privatizations did comply with the provisions of the *Privatization Benefits Fund Act*, they were followed, and they were disclosed in the March 31, 1989 supplementary statements to the government's Combined Financial Statements. Nonetheless, we are concerned that , in our opinion, the financial results of privatization transactions are not reported in the most appropriate manner.

The Privatization Benefits Fund was established to hold, in perpetuity, the "proceeds" of assets disposed of through the government's privatization program. As mentioned above, "proceeds" were defined in a certain way to provide for administrative consistency.

The Privatization Benefits Fund financial statements were never intended to, and they do not, provide sufficient information to judge the overall financial results of privatization transactions. To do so, an entirely different basis of accountability reporting would have been required to provide complete financial information, on a project basis, about this major government program.

In our 1989 Annual Report, we pointed out the need for adopting this basis of reporting for major, high profile initiatives such as Expo 86 and North-East Coal. We mentioned that programs delivered by more than one ministry also require separate accounting. We pointed out that most of the MLAs that we interviewed during our audit of the Estimates process indicated a need for overview information about expenditures related to these kinds of initiatives and programs, and we cited Commissioner MacKay's recommendation that the Ministry of Transportation and Highways report separately on each major highway construction project. We believe the privatization program similarly warrants a project basis of reporting.

As a separate project, the financial results of all privatization transactions would need to be summarized. Thus, those transactions that result in accounting losses as well as those that result in gains would be reported. Examples of privatizations that have resulted in accounting losses to date include the sale by British Columbia Hydro and Power Authority of certain assets to Victoria Gas Company, and the sale of most of British Columbia Steamship Company's assets to British Columbia Stena Line. We believe that Members of the Legislative Assembly need information about loss transactions as well as about those that result in gains in order to judge the overall financial results of privatization transactions.

Regardless of the transactions that are considered, a project basis of accounting would require accumulating information about the total lifetime costs of the assets sold, not just the "book values," and reporting all significant costs and revenues of the program in a summary fashion.

The Expo lands sale is a good illustration of how the current basis of reporting differs from a project basis. In this case, we noted that British Columbia Enterprise Corporation wrote off almost $60 million in carrying charges relating to the Expo lands prior to 1988. In addition, the seawall, the B.C. Pavilion complex, and the Roundhouse, all of which were included in the Expo lands sale, were partly funded by Expo 86 Corporation and by British Columbia Pavilion Corporation. Over $42 million of costs related to the construction of these assets were included in the government's accounting for these other entities. Further, there are costs that may be considered related to this transaction that have yet to be incurred. At the time of the sale, the cost of cleaning up the land to meet environmental safety standards was believed to be significantly lower than recent estimates, which are in the range of $40 million to $60 million. However, since these types of costs are technically neither selling costs nor costs that should be included in "book value", they have not been reflected in the Privatization Benefits Fund financial statements.

In our view, a project basis of accounting would be a more rational one for presenting the financial results of privatization transactions. It would also provide for greater neutrality and consistency when reporting the financial results of these transactions.

Neutrality

As noted above, the declared policy of the Privatization Benefits Fund is to separate the one-time revenues of designated privatization transactions from the ongoing operations of the General Fund. However, under the government's stated accounting policies, only the selling costs and "book values" of the assets sold are deducted from these revenues in arriving at the "proceeds" to be paid into the Fund. This narrow view of the costs associated with designated privatization transactions is in compliance with the *Privatization Benefits Fund Act*. However, it does not consider certain other one-time costs, relating to designated privatization transactions, that have remained in the General Fund.

For example, when the Ministry of Transportation and Highways privatized road and bridge maintenance, the agreements called for the private sector contractors to make payments to offset the ministry's building occupancy costs on those buildings sublet to the contractors. The payments did not equal the ministry's costs, however, and in the 1988/89 fiscal year, $12.9 million was paid to British Columbia Buildings Corporation from the General Fund contingency vote. Of this amount, $12.3 million represented the rental shortfall on the properties leased by the contractors, and $600,000 represented the cost of paying out the lease for those yards which became surplus to the Ministry of Transportation and Highways as a result of the road and bridge maintenance privatizations.

Other one-time costs directly related to designated privatization transactions have similarly remained in the General Fund. The salary and other costs associated with preparing for these privatizations, the costs incurred by the government's Privatization Working Group, the costs of pensions and severance payments made to former employees whose jobs were privatized, and the costs of retraining employees to take on new functions, are all examples of costs which have been left as charges to the General Fund. In this regard, we noted that in the cases of the B.C. Hydro privatizations, certain of these kinds of internal direct and indirect costs were deducted as selling costs from the "proceeds" that were paid to the Privatization Benefits Fund. This was not done for most other designated privatization transactions.

A project basis of reporting would capture all one-time costs related to privatization transactions, rather than only certain selling costs and the "book values" of the assets sold. In this way, it would enable the government to provide more complete information about the financial results of privatization transactions. At the same time, it would identify these costs separately from those related to the ongoing operations of the General Fund.

Consistency

The government consistently applied its stated accounting policies when accounting for designated privatization transactions. This does not mean, however, that the results of such transactions were consistently presented.

The government consistently calculated the "proceeds" on privatization transactions as the net selling price (selling price less sales costs) minus the book value of the assets sold. This consistent application of the accounting rules resulted in very different calculations of "proceeds" between Crown corporations and government ministries, due to the different ways in which those entities account for their fixed assets.

The Crown corporations that had designated "privatization transactions" to March 31, 1989 account for fixed assets the same way that private corporations do. When an asset is purchased, the cost is recorded and then written off, or depreciated, over its estimated useful life. The asset's "book value" is close to its original cost in the early years of its life, and is eventually written down to its scrap or salvage value.

Government ministries, on the other hand, expense fixed assets in the year of acquisition. That is, the assets are written off immediately and the full cost is charged to expense in the year the asset is purchased. For this reason, the "book value" of fixed assets held by government ministries is always nil, and the Public Accounts always show the fixed assets of the Province at a nominal "book value" of $1.

Because of these two fundamentally different ways of accounting for fixed assets, any calculation that deducts "book value" will, if consistently applied, produce very different "proceeds" depending upon whether the relevant asset is held in a Crown corporation or in a government ministry. Table 5.3 illustrates these differences.

A project basis of accounting would require accounting for the historical costs of the assets sold. Without this information, Members of the Legislative Assembly cannot determine the portion of the "proceeds" that relates to a recovery of previous investments in fixed assets held by government ministries, and they are unable to compare the financial results of privatizations by ministries with those of Crown corporations.

Looking Ahead

We believe the legislature should be provided with a more complete accounting of the financial results of the privatization program. In particular, Members of the Legislative Assembly should be able to readily determine the financial results of loss transactions, and be provided with information about program costs that are currently not deducted before "proceeds" are transferred to the Privatization Benefits Fund. This should include information about the costs of fixed assets and other investments that were written off in previous years, as well as the costs of future obligations related to the privatizations, where such costs are material. Without this information, Members and the public will be unable to judge the overall financial results of the government's privatization transactions.

FIGURE 5.3

An illustration of the effects on the Privatization Benefits Fund of different methods of accounting for fixed assets

	Method of Accounting for Fixed Assets	
	Government	Crown Corporation
Purchase Price	$1,000,000	$1,000,000
Recorded Asset Value	$ 0	$1,000,000
Depreciation at 10% for two years	0	200,000
Book Value at Time of Sale	0	800,000
Net Selling Price	750,000	750,000
Gain (Loss) on Sale	$ 750,000	$(50,000)
"Proceeds" Paid to Privatization Benefits Fund	$ 750,000	$ Nil

Fraud and Other Illegal Acts: Awareness, Reporting and Investigation

A review of the operating policy and procedures for dealing with fraud and other illegal acts directed against the government of British Columbia

Purpose of Our Review

The purpose of our review was to determine if government operating policy and procedures provide adequate guidance to staff when they must deal with suspicions of fraud or other wrongdoing. We also looked to see if management in ministries had assessed the risks of fraud and other illegal acts within, or against, their operations.

Conclusion

We concluded that existing policy and procedures need to be clarified and expanded. At the time of our review, several central agency groups were taking steps to improve policy and procedures, but these steps were not coordinated. We also found that most ministries had not performed comprehensive, formal risk assessments of their operations, including risk of fraud and other illegal acts.

Why a Fraud Policy is Important

Dealing with suspected fraud and other illegal acts is an unpleasant task. If an organization mishandles investigations, it can be exposed to significant consequences. It is tempting for managers to try to deal with suspicious circumstances on their own, with the hope of preventing the need for reporting. Mishandling the situation, however, could result in personnel disputes, and in the government, or government managers, being exposed to costly lawsuits. Furthermore, unintentional warnings could be given to perpetrators, and evidence destroyed. Mishandling may also result in management being unable to take appropriate disciplinary or legal action.

When wrongdoing is suspected, management must have clear policy and procedures for properly and discretely handling resultant investigations. Policy for dealing with fraud and other wrongdoing is important because it raises the awareness of management and staff about risks and responsibilities. Also, it provides a standard, impartial approach to situations that could otherwise be affected by emotions and personalities. A good fraud policy should include:

- a statement of management responsibility;

- defined responsibilities for performing investigations, reporting to senior management and bonding companies, and referring cases to the police;
- instructions to help managers and investigators prevent charges against the government or themselves for malicious prosecution, slander, libel or false imprisonment;
- specific instruction to managers not to discuss the case and not to contact suspects; and
- instructions for dealing with informants.

Recent Experience

Like any other large organization, the government sometimes encounters fraud and other wrongdoing. Examples of types of suspected wrongdoing investigated by the government in the past two years include client welfare fraud, theft of liquor, skimming of cash receipts, and conflict of interest.

Suspicions may or may not be well founded, which is one reason that policy and procedures for handling investigations are important. The Internal Audit Branch of the Office of the Comptroller General (OCG) has performed approximately 30 investigative assignments over the past two years. Approximately one-half of those investigations involved proven loss or wrongdoing. The Security Division of the Liquor Distribution Branch of the Ministry of Labour and Consumer Affairs deals with numerous incident reports each year involving such matters as shoplifting, theft of cash receipts, and theft of liquor by employees.

Government Operating Policy and Procedures

Current Policy

Many groups are involved in the handling and reporting of suspected fraud and other illegal acts against the government. These groups include ministry management, internal audit departments, and special security and investigative groups. They also include central agencies such as this Office, the Criminal Justice Branch of the Ministry of Attorney General, and Ministry of Finance and Corporate Relations departments such as the Labour Relations Branch of Government Personnel Services Division, the Risk Management Branch, and the OCG.

Treasury Board's financial management policy provides the main guidance for handling fraud and other wrongdoing. The policy, however, both in its title and its content, emphasizes the reporting of quantifiable asset loss. It does not clearly require ministries to also report situations where suspicions of wrongdoing arise. Furthermore, the policy does not adequately emphasize management's responsibilities for the prevention and detection of wrongdoing.

In our opinion, current policy does not sufficiently reduce the risk that managers might mishandle suspicious circumstances. The policy requires ministries to report to central agencies and the police, but it does not prohibit such actions as contacting suspects, or discussing cases with others. In addition, there are no central policies to guide managers in dealing with informants, handling bonding claims, or deciding whether to pursue prosecution. We believe policy and procedures are needed in these areas.

It is also unclear to what extent the policy applies to special audit or investigative groups. For example, the policy requires reports be made to the Comptroller General and the Auditor General. We found, however, that investigations have been carried out which were not formally reported to our Office. We believe that central policy and procedures should define the reporting responsibilities of these groups.

Government Initiatives

The Internal Audit Branch of the OCG is aware of many of the issues noted above. It is in the process of making recommendations for change to the central policy, and is also planning to conduct fraud awareness sessions for senior ministry management in the coming year. We have also learned that the Risk Management Branch has recommended changes to the policy for reporting asset losses. In addition, the Government Personnel Services Division told us that it and the Criminal Justice Branch of the Ministry of Attorney General were working on guidelines for government managers to follow in deciding whether to pursue prosecution. While we believe the steps being taken by the above central agency groups are worthwhile, we are concerned that each was working independently of the others. We believe that government policy and procedures on the handling and reporting of fraud and other illegal acts should be developed in consultation with groups affected, including central agencies and investigative groups.

Risk Assessment

Management is responsible for being aware of the risks of fraud or other illegal acts against the organization. It must assess these risks to be able to develop and maintain proper internal controls for the prevention and detection of fraud. We did not address the adequacy of government internal control systems in this review, since each internal control system is a study in itself.

The inherent nature of an operation or program can affect the risk of fraud. For example, the risk is higher where large sums of cash are handled. Government management policy requires that ministries develop and apply comprehensive risk management strategies for their operations and programs. Comprehensive assessments are necessary not only for fraud and other illegal acts, but for other kinds of risks, such as the potential for conflict of interest, or the risk of loss of critical data.

We found that, although some ministries recognize that certain programs have high risk associated with them, most ministries had not performed comprehensive, formal risk assessments. The Risk Management Branch has recently begun risk assessments on behalf of some ministries. The Branch intends to perform these assessments for all ministries in the next year, a step we think is positive. However, ministry management will still likely need to perform assessments at a more detailed level, and to evaluate any new risks arising from program changes.

Follow-Up of Previous Year's Studies

In order to keep Members of the Legislative Assembly and the public informed about the nature, extent and results of management's actions with respect to points raised in last year's studies, it is our practice to obtain and publish updates of management's responses.

The following written comments were received from the Ministry of Finance and Corporate Relations with respect to last year's study titled "Management of Government Employee Leave Entitlements."

Follow-Up from the Ministry of Finance and Corporate Relations

Management of Government Employee Leave Entitlements

Government Personnel Services Division (GPSD), formerly part of the Ministry of Government Management Services and now a division within the Ministry of Finance and Corporate Relations, was charged with providing leadership to ministries in the development of automated Leave Management Systems.

GPSD formed a steering committee comprised of senior personnel from several ministries and a consultant to determine the best way to proceed. Alternative approaches to leave management were reviewed and the steering committee formulated the following recommendations:

- *leave management should be performed at the ministry level;*
- *information required by GPSD and the Office of the Comptroller General (OCG) should be provided in the normal course of producing ministry leave management information;*
- *leave management should be automated;*
- *the automated leave management system should integrate into the current or proposed technical environment within each ministry;*
- *reasonable financial support for the proposed ministry based leave management system be funded by GPSD;*
- *six separate leave systems be built, one for each hardware platform being used by the ministries.*

Funding of $450,000 was obtained and the ministries were divided into teams according to their hardware platform. The ministries on each team were then tasked with the responsibility for the development of their respective leave management software. Six contracts were let with companies to develop the software for the basic systems and the contracts came in under budget. GPSD continued to provide guidance and leadership by providing advice during development of the software and preparing monthly reports on the status of each development project.

Through the efforts of the ministries, GPSD and OCG, the development and implementation of leave management systems in the ministries is nearly complete. The systems have all been designed to:

- *provide timely, complete and accurate reporting of leave entitlements and transactions for day-to-day ministry purposes;*
- *provide timely, accurate and consistent financial and statistical data, compatible to the needs of OCG and GPSD; and,*
- *facilitate the portability of leave management information for individual employees from ministry to ministry.*

As of February 19, 1990, there are seven ministries representing approximately ten percent of all employees with a fully operational leave management system. A further seven ministries representing an additional 40 percent of all employees plan to be operational by

March 31, 1990. By July/August 1990, an additional seven ministries representing a further 42 percent of all employees plan to be operational. Only one ministry's implementation has been delayed due to operational difficulties and their need to stabilize their hardware platform before they undertake any new software developments.

In summary, progress has been substantial over the past 12 months and by the end of July/August 1990, 92 percent of all government employees will have been transferred to an automated leave management system. The Ministry of Finance and Corporate Relations' commitment to leave management will continue. GPSD will continue to maintain the Rules and Procedures for the Time Bank Leave Recording Manual, to monitor the implementation of each ministries' leave management system and to chair a monthly forum with ministy's to solve and eliminate leave recording problems.

Part VI: The Office of the Auditor General

Part VI: The Office of the Auditor General

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The Office of the Auditor General

The Office of the Auditor General was established in 1977 to enable the Auditor General to carry out his responsibilities under the provisions of the *Auditor General Act*.

Details of these responsibilities, as set out in the Act, appear in Appendix A. A more concise description of the role of the Auditor General is found in the Office's Mission Statement, which reads:

> The Auditor General serves the citizens of the Province by providing independent opinions and evaluations on the financial and administrative management of the government and its related entities in the public sector. As well, he promotes improvement in public sector accountability.
>
> To fulfill his responsibilities, the Auditor General has established a professional office committed to the principles of objectivity, integrity, and service to the public.

Comments expanding on the various aspects of the Mission Statement are presented in Appendix B.

Operation of the Office

Organization

The reorganization described in last year's Annual Report has served the Office well. Accordingly, the organizational structure of the Office, depicted in Figure 6.1, remained essentially unchanged during the year.

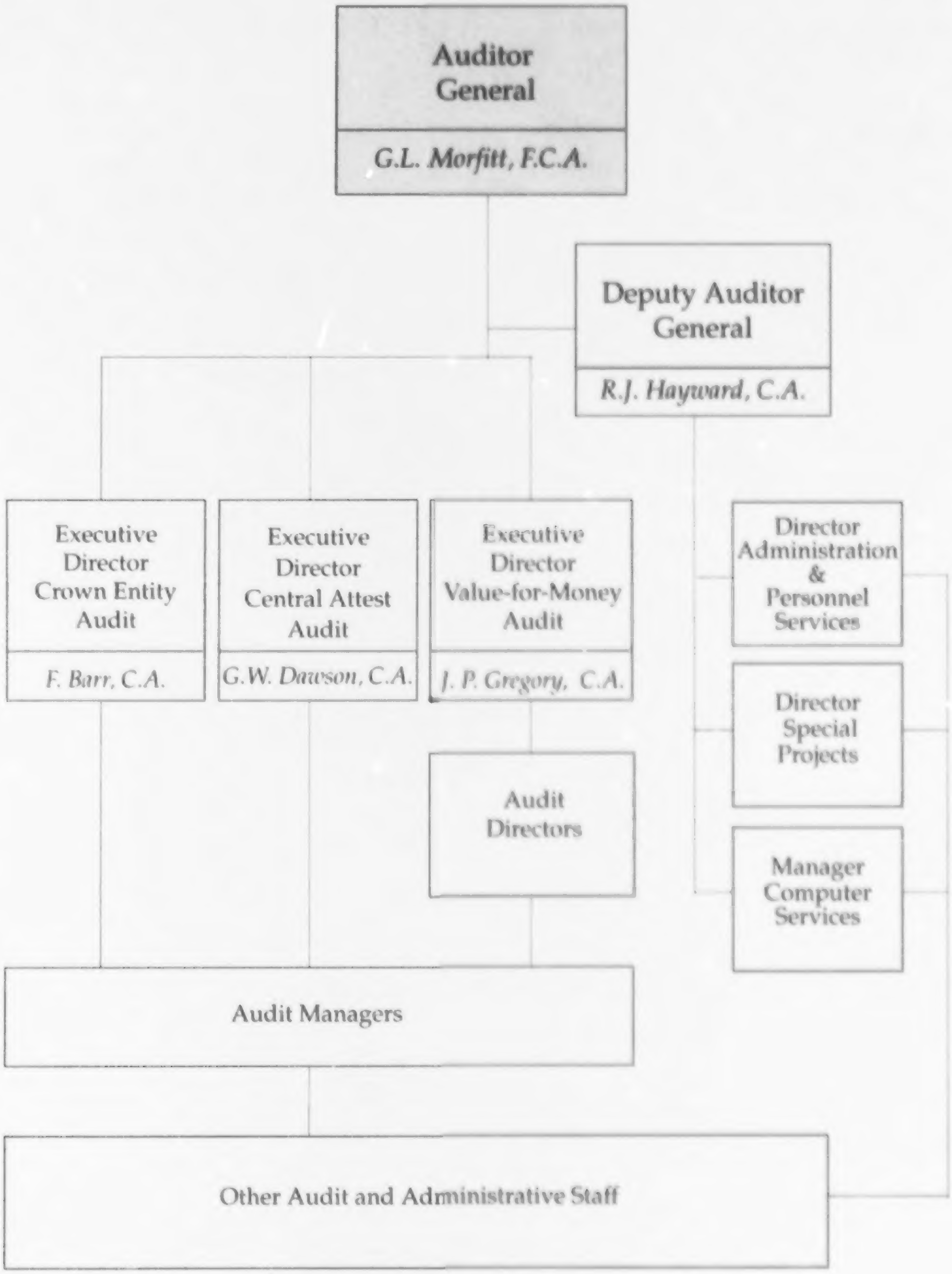
Similarly, the system of committees, consisting of the Executive, Annual Report, Computer Services, and Quality Assurance committees, continued to serve the planning, technical, and administrative needs of the Office.

Personnel

At December 31, 1989, the Office employed 87 staff. Of these, 45 employees had professional or other advanced academic qualifications, 28 were employed as trainees in programs leading to recognized accounting designations, and 14 provided administrative, clerical and technical services.

The Office continued to experience a high rate of staff turnover during the year, with a majority of those leaving our employ advancing to positions in various government ministries and public bodies. This movement, while understandable given the skills of our employees, nevertheless presents us with a continuing challenge to recruit

FIGURE 6.1 **ORGANIZATION OF THE OFFICE OF THE AUDITOR GENERAL**
DECEMBER 1989


Auditor General
G.L. Morfitt, F.C.A.
Deputy Auditor General
R.J. Hayward, C.A.
Executive Director Crown Entity Audit
F. Barr, C.A.
Executive Director Central Attest Audit
G.W. Dawson, C.A.
Executive Director Value-for-Money Audit
J. P. Gregory, C.A.
Director Administration & Personnel Services
Director Special Projects
Manager Computer Services
Audit Directors
Audit Managers
Other Audit and Administrative Staff

well-qualified staff and promising trainee personnel. Adding to the challenge are the constraints imposed by public service staffing policies, procedures and salary scales.

In the past year, a number of staff were on secondment leave from the Office. The secondment program serves several valuable purposes. First, it provides an opportunity for staff members to broaden their work and personal experience, and so bring back to the Office new skills and perspectives. Second, the program enables the Office to assist various areas of government by providing, often at critical times, some special expertise possessed by our employees. Finally, in cases where we have been able to arrange a temporary exchange of employees, we have had the added benefit of bringing experienced people onto our staff who have contributed notably to the work of the Office.

Worthy of particular mention was the secondment of Mr. Les Kojima, C.A., to the Office of the Auditor General of the Kingdom of Nepal. This small country, at the foot of the Himalayas, is a major recipient of aid from the United Nations and other agencies. As part of a program to strengthen accounting and auditing procedures in that country, a special project was undertaken by the UN. Mr. Kojima, with experience gained from this Office in value-for-money auditing, was asked to join the project team. He served in Kathmandu, Nepal, for a six-month period ending in November 1989. We acknowledge the efforts of Mr. Kojima in providing, under frequently trying circumstances, expert help to the people of this distant land.

Professional Development and Training

Because of the increasingly complex nature of matters faced by our staff in the performance of their work, a strong program of professional development and training is essential to maintaining their skill levels.

Our program follows two main streams, the first aimed at our professionally qualified staff, and the second at our trainee-level staff.

Professional development for qualified staff takes the form of courses, seminars, and conferences on matters relevant to individual needs. Our recently updated employee performance appraisal process incorporates a plan to highlight these needs. Also, we are pleased to note the initiatives currently being taken by the government to provide a range of training courses for management personnel. These courses, combined with those of a technical nature being developed within our Office, should enable us to provide a complete and well-rounded educational program.

For those of our staff at the trainee level, training takes the form of on-the-job experience combined with courses provided both by the Office and by recognized professional accounting bodies. The Office is approved as a practicing office by the Institute of Chartered Accountants of British Columbia. It is also considered, by the Certified General Accountants Association of British Columbia and the Society of Management Accountants of British Columbia, to be an acceptable employer for training students registered with those organizations.

Office Facilities and Equipment

The Office of the Auditor General is located in leased premises at 8 Bastion Square in downtown Victoria. This location has served the Office well since 1979, although some crowding is now evident. Accordingly, as funds become available, space-saving work stations are being acquired to replace aging desks and cabinets.

Further progress was made during the year in equipping our staff with microcomputer equipment, and upgrading our general office computing facilities. In all, 19 microcomputers were acquired in 1989, bringing to 62 the total number in use in the office. The microcomputer has now become an essential tool for performing many auditing tasks.

Office Funding and Finances

After careful consideration of the Office's mandate and the extent of audit work necessary for the period, the Auditor General requested a budget allocation of 92 staff positions for the fiscal year ended March 31, 1990. This would have increased staffing by 5 positions, from 87 to 92, thereby restoring it to the same level as was first established for the Office in the 1980/81 fiscal year, and then re-established in 1985/86 following consideration by the Public Accounts Committee and the government. We think it is notable that, in the period since the staffing level of 92 was first established in 1980/81, government expenditures subject to audit by the Auditor General have more than doubled.

However, the budget approved by the Legislative Assembly did not provide for the requested increase in staffing. As a result, a reduction in the planned audit work for the year has been necessary, affecting mainly the areas of value-for-money audits and internal control reviews.

Net expenditures for the operation of the Office for the fiscal year ended March 31, 1989, were $5,047,656, made up as follows:

Salaries and benefits	$3,975,074
Operating costs	849,915
Asset acquisitions	206,293
Grants and contributions	40,000
	5,071,282
Recoveries	(23,626)
	$5,047,656

The accounts of the Office of the Auditor General are audited annually by an auditor appointed by the Treasury Board. That auditor reports on the results of his audit to the Speaker, who is required to present the report to the Legislative Assembly. The audit for the fiscal year ended March 31, 1989, has been completed and reported on to the Speaker.

Professional Activities

Employees of the Office are actively involved with a number of professional and other associations whose activities are directly important to the work of the Office. For some, this involvement takes the form of executive or committee work; for others it entails research and technical projects. Included in these organizations are:

- Institute of Chartered Accountants of British Columbia
- Certified General Accountants Association of British Columbia
- Society of Management Accountants of British Columbia
- Canadian Comprehensive Auditing Foundation
- Canadian Evaluation Society
- EDP Auditors Association
- Financial Management Institute of Canada
- Institute of Internal Auditors
- Institute of Public Administration of Canada
- Law Society of British Columbia

Advisory Council

Several senior members of the accounting profession have served on a council of advisors to the Auditor General during the past year. Their valued contribution to the work of the Office is greatly appreciated.

Professional Affiliations of the Office

In addition to the involvement of individual staff members in their respective associations, the Office actively supports and participates in the work of three organizations whose aims and objectives are closely tied to those of the Office.

Public Sector Accounting and Auditing Committee

The Canadian Institute of Chartered Accountants (CICA) formed the Public Sector Accounting and Auditing Committee (PSAAC) in 1981 to improve and harmonize public sector financial reporting, accounting, and auditing practices. The committee, made up of representatives from various levels of government, the accounting community, and other interested parties, carries out research in these areas of interest and periodically issues statements containing its recommendations.

To date, five Public Sector Accounting Statements and four Public Sector Auditing Statements have been issued. These are now serving as authoritative guidelines for those involved in accounting and auditing at the federal, provincial, and local levels of government throughout Canada. As well, several major research projects are in progress.

This Office actively supports the work of the committee by studying and commenting on its research work. The Auditor General is currently serving as a member of PSAAC.

Canadian Comprehensive Auditing Foundation

The Canadian Comprehensive Auditing Foundation is a national cooperative association established to help strengthen management, accountability and audit in the public sector. Its interests extend to all organizations that are sustained by public funds to carry out public policy objectives.

The Foundation's work concentrates on the ways in which managers can ensure that good value for money is obtained from their administrative practices; on the manner in which managers report their accountability for achieving economy, efficiency and effectiveness; and on the role audit plays in that reporting.

The Office has been a member and supporter of the Foundation since its formation in 1980. The Auditor General is an elected member of its Board of Governors.

Canadian Conference of Legislative Auditors

The Canadian Conference of Legislative Auditors is an association of auditors general and provincial auditors from the senior governments of Canada. Meetings are held annually so that those actively involved in legislative auditing can exchange information and experiences. Several members of our staff attended the 17th annual meeting held in July 1989 in Edmonton, Alberta. Of particular interest to those attending was an address by the newly appointed Auditor-General of Australia, Mr. John C. Taylor.

The Canadian Council of Public Accounts Committees, made up of representatives from all the senior legislatures across the country, also met in Edmonton at that time. A joint session between the two groups provided the opportunity for a useful discussion on the interrelationships between the auditor and the legislator.

Public Accounts Committee

The *Auditor General Act* requires that the Annual Report of the Auditor General, after being tabled in the Legislative Assembly, be referred to the Public Accounts Committee. This committee of the legislature, made up of a cross-section of members of the Assembly, is empowered to examine and enquire into those matters referred to it by the legislature. Traditionally, a substantial portion of the committee's deliberations relate to information contained in the Auditor General's Annual Report.

The last Annual Report of the Auditor General was tabled in the Legislative Assembly on April 11, 1989. Discussion on its contents by the Public Accounts Committee began on April 25 and continued over 10 meetings to July 18, 1989.

The committee issued a report on its activities, which was tabled in the Legislative Assembly on July 20, 1989. That report reviewed the work of the committee, and provided observations and recommendations on a variety of issues raised by the Auditor General.

Appendices

Appendices

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Appendix A

Auditor General Act

Interpretation

1. In this Act
"ministry" means a ministry or branch of the executive government of the Province;

"public body" means

(a) an agency of the Crown;

(b) a board, commission, council or other body of persons, whether or not incorporated, all the members of which or all the members of the board of management or board of directors of which are appointed by an Act, an order of the Lieutenant Governor in Council or a minister of the Crown;

(c) a corporation, more than 50% of the shares or ownership of which is, directly or indirectly, vested in the Crown; or

(d) a corporation, association, board, commission or society to which a grant or advance of public money is made, or the borrowings of which may be guaranteed by the Crown under the authority of any Act;

and all other words have the same meaning as they have in the *Financial Administration Act*.

Appointment, salary, term and pension

2.(1) The Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint as an officer of the Legislature, a person as Auditor General to exercise the powers and perform the duties assigned to him under this Act.

(2) The Legislative Assembly shall not recommend a person to be appointed as Auditor General unless a special committee of the Legislative Assembly has unanimously recommended to the Legislative Assembly that the person be appointed.

(3) The Auditor General shall be appointed for a term of 6 years and he may be reappointed in the manner provided in this section for further 6 year terms.

(4) The Auditor General shall be paid, out of the consolidated revenue fund, a salary in an amount equal to the salary paid to the chief judge of the Provincial Court of British Columbia.

(5) The Auditor General shall be reimbursed for reasonable travelling and out of pocket expenses necessarily incurred by him in discharging his duties.

(6) Subject to subsections (7) to (10.1), the *Pension (Public Service) Act* applies to the Auditor General.

(7) An Auditor General who retires, is retired or removed from office after at least 10 years' service shall be granted an annual pension payable on or after attaining age 60.

(8) Where an Auditor General who has served at least 5 years is removed from office by reason of a physical or mental disability, section 19 of the *Pension (Public Service) Act*

applies and he is entitled to a superannuation allowance commencing on the first day of the month following his removal.

(9) Where an Auditor General who has served at least 5 years dies in office, section 20 of the *Pension (Public Service) Act* applies and the surviving spouse of the Auditor General is entitled to a superannuation allowance commencing on the first day of the month following the death.

(10) When calculating the amount of a superannuation allowance under subsection (7), (8) or (9),

(a) each year of service as Auditor General shall be counted as 1 1/2 years of pensionable service.

(b) [Repealed 1988-52-1.]

(10.1) Subsection (10) does not apply to the calculation under section 6(5) of the *Pension (Public Service) Act*.

(11) Before beginning to perform his duties, the Auditor General shall take an oath before the Clerk of the Legislative Assembly that he will faithfully and impartially exercise the powers and perform the duties of his office.

Resignation, removal or suspension

3. (1) The Auditor General may at any time resign his office by written notice to the Speaker of the Legislative Assembly or to the Clerk of the Legislative Assembly if there is no Speaker or if the Speaker is absent from the Province.

2) On the recommendation of the Legislative Assembly, based on cause or incapacity, the Lieutenant Governor shall

(a) suspend the Auditor General, with or without salary; or

(b) remove the Auditor General from his office

in accordance with the recommendation.

(3) Where the Auditor General is suspended or removed from office or the office of Auditor General becomes vacant, the Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint an acting Auditor General to hold office until the end of the period of suspension of the Auditor General or until an Auditor General is appointed under this Act, as the case may be.

(4) When the Legislature is not sitting and is not scheduled to sit within the next 5 days, the Lieutenant Governor in Council may, with or without salary, suspend the Auditor General from his office for cause or incapacity but the suspension shall not continue in force after the expiry of 20 sitting days.

Acting Auditor General

4. (1) Where

(a) the Auditor General is suspended or removed or the Office of Auditor General becomes vacant when the Legislature is sitting but no recommendation under this Act is made by the Legislative

Assembly before the end of that session; or

(b) the Auditor General is suspended or the office of Auditor General becomes vacant when the Legislature is not sitting,

the Lieutenant Governor in Council may appoint an acting Auditor General.

(2) The appointment of an acting Auditor General under this section terminates

(a) on the appointment of a new Auditor General under section 2;

(b) at the end of the period of suspension of the Auditor General; or

(c) immediately after the expiry of 20 sitting days after the day on which he was appointed

which ever the case may be and whichever occurs first.

Staff

5. (1) The Auditor General may appoint, in accordance with the *Public Service Act*, a deputy Auditor General and other employees necessary to enable him to perform his duties.

(2) For the purpose of the application of the *Public Service Act* to this section, the Auditor General shall be deemed to be a deputy minister.

(3) Notwithstanding the *Public Service Act*, the Auditor General may engage and retain specialists and consultants as may be required to carry out his functions, and may determine their remuneration.

(4) [Repealed 1985-15-19, effective March 2, 1987 (B.C. Reg. 248/86).]

(5) The Auditor General may make a special report to the Legislative Assembly where

(a) the amounts and establishment provided for the office of the Auditor General in the estimates; or

(b) the services provided to him by the Government Personnel Services Division,

are, in his opinion, inadequate to enable him to fulfil his duties.

Examination of accounts

6. (1) The Auditor General shall examine in the manner he considers necessary the accounts and records of the government relating to the consolidated revenue fund and all public money, including trust and special funds under the management of the government, and to public property.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any ministry; and

(b) may require and receive from any person in the public service, information, reports and explanations necessary for the performance of his duties.

Report on financial statements

7. (1) The Auditor General shall report annually to the Legislative Assembly on the financial statements of the government, including those required by section 8(2) of the *Financial Administration Act*, respecting the fiscal year then ended.

(2) The report shall form part of the public accounts and shall state

(a) whether he has received all of the information and explanations he has required; and

(b) whether in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the government in accordance with the stated accounting policies and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the report of the Auditor General does not contain the unqualified opinion required under this section, the Auditor General shall state the reasons why.

Annual report

8. (1) The Auditor General shall report annually to the Legislative Assembly on the work of his office and call attention to anything resulting from his examination that he considers should be brought to the attention of the Legislative Assembly including any case where he has observed that

(a) accounts have not been faithfully and properly kept or public money has not been fully accounted for;
(b) essential records have not been maintained;
(c) the rules, procedures or systems of internal control applied have been insufficient

(i) to safeguard and protect the assets of the Crown;

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue;

(iii) to ensure that expenditures have been made only as authorized; or

(iv) to ensure the accuracy and reliability of the accounting data; or

(d) public money has been expended for purposes other than for which it was appropriated by the Legislature.

(2) In the report the Auditor General may also include an assessment

(a) as to whether the financial statements of the government are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure; or

(b) as to whether any program being administered by a ministry is being administered economically and efficiently.

Trivial matters

9. The Auditor General need not report to the Legislative Assembly on any matter he considers immaterial or insignificant.

Submission of annual report

10. (1) A report of the Auditor General to the Legislative Assembly shall be submitted by him through the Minister of Finance.

(2) On receipt of a report of the Auditor General, the Minister of Finance shall lay the report before the Legislative Assembly as soon as possible.

(3) If the Minister of Finance does not lay the report before the Legislative Assembly on the first sitting day following the receipt of the report by him, the Auditor General shall transmit the report to the Speaker and the Speaker shall lay the report before the Legislative Assembly.

(4) On being laid before the Legislative Assembly, the annual report of the Auditor General shall be referred to the Public Accounts Committee of the Legislative Assembly.

Special report

11. The Auditor General may at any time make a special report to the Legislative Assembly on a matter of primary importance or urgency that, in his opinion, should not be deferred until he makes his annual report.

Other reports

12. The Auditor General may at any time make a report to the Minister of Finance, the Treasury Board, the Lieutenant Governor in Council, or any public officer on any matter that in the opinion of the Auditor General should be brought to his or their attention.

Special assignments

13. The Auditor General may undertake special assignments at the request of the Lieutenant Governor in Council, but he is under no obligation to carry out any requested assignment if, in his opinion, it would interfere with his primary responsibilities.

Staff in ministries

14. (1) The Auditor General may station in any ministry a person employed in his office to enable him to more effectively carry out his duties, and the ministry shall provide the necessary office accommodation for a person so stationed.

(2) The Auditor General shall require every person employed in his office who is to examine the accounts or the administration of a ministry pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that ministry.

Inquiry powers

15. The Auditor General may examine any person on oath on any matter pertaining to his responsibilities and for that examination the Auditor General has all the powers, protection and privileges of a commissioner under sections 12, 15 and 16 of the *Inquiry Act*.

Public bodies

16. (1) Notwithstanding any other Act, where the Auditor General is not the auditor of a public body,

(a) the public body shall, on the request of the Auditor General, supply the Auditor General with a copy of all financial statements and reports relating to the public body;

(b) the auditor of the public body shall, on the request of the Auditor General, make available to the Auditor General, within a reasonable time, all working papers, reports and other documents in his possession relating to the public body; and

(c) the Auditor General may conduct examinations of the records and operations of the public body he considers necessary or advisable to carry out his duties under this Act.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any public body; and

(b) may require and receive from any officer or employee of a public body information reports and information necessary for the performance of his duties.

Eligibility as auditor

17. Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, Crown agency or public body.

Transfer of audit duties

18. The Lieutenant Governor in Council may transfer to the Auditor General the duty imposed by any Act on a person to conduct an audit.

Audit of accounts of Auditor General

19. (1) The Treasury Board shall appoint an auditor to audit the accounts of the office of Auditor General annually.

(2) The auditor appointed under this section shall certify the accounts of the office of Auditor General that he finds to be correct and shall report the result of his audit to the Speaker, who shall present it to the Legislative Assembly.

Appropriation

20. Money required for the purposes of this Act shall be paid out of money authorized by an Act of the Legislature.

Appendix B

Mission Statement

The formal mandate of the Auditor General has been prescribed by the Legislative Assembly in the *Auditor General Act*, a copy of which is presented in Appendix A to this report.

Based on the requirements of that Act, and reflecting the concepts and practices that have evolved over time, a Mission Statement has been developed to concisely describe the role of the Auditor General, and the means employed to carry out this role.

MISSION STATEMENT

The Auditor General serves the citizens of the Province by providing independent opinions and evaluations on the financial and administrative management of the government and its related entities in the public sector. As well, he promotes improvement in public sector accountability.

To fulfill his responsibilities, the Auditor General has established a professional office committed to the principles of objectivity, integrity and service to the public.

While this statement is purposely brief, amplification of its various aspects will help the reader better understand its message.

The phrase, "*...serves the citizens of the Province...*", denotes the concept of public service, and recognizes the breadth of the audience interested in the Auditor General's work, including Members of the Legislative Assembly, the government and its administration, the taxpayer, and others seeking information about the financial and administrative affairs of the government.

The statement continues, "*...by providing independent...*". This reflects the fact that the Auditor General is an officer of the Legislature. His independence from the government of the day and the public service is essential to the effective and unbiased work of the Office.

The phrase, "*...opinions and evaluations on the financial and administrative management of the government...*", describes the major responsibility of the Office of the Auditor General. The *Auditor General Act* requires the Auditor General to examine the accounts and records of the government, and to express his opinion on the government's annual financial statements. In this respect the Auditor General's role is like that of accounting firms who audit the books of private sector companies. Following the collection and spending of public funds, the Auditor General examines the government's financial transactions and reports his findings to the Legislative Assembly. Like private sector auditors, he expresses his opinion on the financial information presented to him by the government — the traditional "attest" audit function.

The Act also calls on the Auditor General to comment in an annual report to the Legislative Assembly on any matter arising from his work that he considers to be of interest to the Assembly. This may deal with such matters as the improper use of public funds, failure to comply with legislative and related authorities, expenditures not authorized by the Legislature, and other irregularities. It may also deal with his evaluations as to whether tax dollars have been economically and efficiently spent for the purposes intended.

The Statement continues, "*...and its related entities in the public sector.*" This refers to the Auditor General's role with respect to provincial Crown corporations and other public bodies. For those public bodies of which he is the appointed auditor, the Auditor General's responsibilities roughly parallel those undertaken in the audit of the government's accounts. For those public bodies audited by others, the Auditor General has an oversight role which responds to the varying needs of the Legislative Assembly.

The next sentence states, "*As well, he promotes improvement in public sector accountability.*" It refers to the Auditor General's overall concern with disclosure and accountability throughout the public sector. In this regard, whether through his Annual Report, his dealings with the Public Accounts Committee of the Legislature, or his direct contact with public officials and administrators, the Auditor General actively furthers the concept of accountability.

The final phrase of the Mission Statement reads, "*...a professional office committed to the principles of objectivity, integrity and service to the public.*" The concept of professionalism emphasized here implies adherence to a set of standards which are professionally recognized. Since its inception the Office of the Auditor General has functioned as a practicing office as defined by the Institute of Chartered Accountants of British Columbia, and has met all the requirements of that Institute associated with this status. Staff members of the Office are required to have either a professional accounting designation or special qualifications in other disciplines, or be pursuing studies toward a professional designation.

Appendix C

List of Internal Control Reviews and Other Studies Completed

1990 Annual Report

Ministry Accounts Receivable Management

Pharmacare Processing of Payment Claims from Pharmacies: Ministry of Health

Wildlife Act — Licence Fee Revenue. Ministry of Environment

Long Term Disability Plan Benefit Payments: Superannuation Commission

Home Mortgage Accounting System: Ministry of Finance and Corporate Relations

Student Financial Assistance: Ministry of Advanced Education, Training and Technology

Accountability of Crown Corporations to the Legislative Assembly

The Lottery Fund: An Audit of the Granting Process

Public Gaming: Licensing and Control

Reporting the Results of Privatization Transactions

Fraud and Other Illegal Acts: Awareness, Reporting and Investigation

1989 Annual Report

Property Purchase Tax System: Ministry of Finance and Corporate Relations

Long-Term Debt Accounting System: Ministry of Finance and Corporate Relations

Central Textbook Inventory System: Ministry of Education

Data Collection Phase of the Stumpage and Royalty Revenue System: Ministry of Forests

Provincial Police Services Contract Payment System: Ministry of Solicitor General

Control of the Public Purse by the Legislative Assembly

Review of Recent Initiatives: Ministry of Transportation and Highways

Management of Government Employee Leave Entitlements

1988 Annual Report

Provincial Treasury Investment System: Ministry of Finance and Corporate Relations

Sewerage Assistance and Water Facilities Grants Payment System: Ministry of Municipal Affairs

Shelter Aid for Elderly Renters Grant Payment System: Ministry of Social Services and Housing

Small Business Enterprise Program Revenue System: Ministry of Forests and Lands

Vital Statistics Division Revenue System: Ministry of Health

1987 Annual Report

Review of Local Minor Purchase Orders and Emergency Purchase Orders

1986 Annual Report

Professional Service Contract Review

1982 Annual Report

Expenditure Review (Travel Expenses)

Appendix D

List of Value-for-Money Audits Completed

1990 Annual Report

Ministry of Transportation and Highways:
- Road and Bridge Maintenance
- Major Capital Projects
- Development Approvals
- Gravel Management
- Buying Signs
- Services, Facilities and Attractions Signs
- Annual Report

Privatization:
- Monitoring Environmental Laboratory Services
- British Columbia Enterprise Corporation Westwood Plateau Property

Acquisition and Disposition of Land

1989 Annual Report

Privatization:
- The Process
- Early Initiatives
- Highways
- British Columbia Enterprise Corporation Loans

Ministry of Health:
- Hospitals
- Medical Services Plan
- Continuing Care
- Public Health

1988 Annual Report

Ministry of Education:
- Funding
- Special Education
- Facilities
- Curriculum

Ministry of Energy, Mines and Petroleum Resources:
- Organization Structure
- Natural Gas Royalty Revenue
- Petroleum Resources Division
- Mineral Resources Division, Engineering and Inspection Branch

1987 Annual Report

Government Purchasing

Ministry of Attorney General:
- Corrections Branch
- Legal Services Branch
- Management of Buildings and Office Accommodation
- Management of the Financial Function

1986 Annual Report

Ministry of Lands, Parks and Housing:
- Crown Land Administration
- Crown Land Special Account
- Computerization
- Social Housing
- Parks and Outdoor Recreation
- Financial Management and Control

Passenger Vehicle Travel

1985 Annual Report

Ministry of Agriculture and Food:
- Strategic Direction and Accountability
- Financial Assistance
- Extension
- Financial Management and Control

Ministry Annual Reports

1982 Annual Report

Review of Internal Audit in the Government of British Columbia

1981 Annual Report

- Ministry of Environment:
  - Waste Management Program
  - Financial Management and Control

- Ministry of Forests:
  - Financial Management and Control

- Ministry of Health:
  - Financial Management and Control

1980 Annual Report

- Ministry of Human Resources:
  - Income Assistance Program
  - Financial Management and Control

- Ministry of Education:
  - Financial Management and Control

- Ministry of Finance:
  - Financial Management and Control

- Ministry of Lands, Parks and Housing:
  - Financial Management and Control

Appendix E

List of Special and Other Reports Issued

	Date Report Issued
Special Report to the Legislative Assembly — The Lottery Fund: An Audit of the Granting Process	February 27, 1990
Report under Section 12 of the *Auditor General Act* — An Examination of the Severance Settlement with Mr. David Poole	July 7, 1989
Special Report to the Legislative Assembly on the Allocation of Highway Construction Costs in the Fiscal Year Ended 31 March 1986	March 7, 1988
Third Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism	April 11, 1984
Second Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism	July 18, 1983
Special Report to the Legislative Assembly on Expenditures of the Ministry of Tourism	May 1, 1983
Special Report on Expenditures of the Minister of Consumer and Corporate Affairs from 6 January 1981 to 31 March 1982	July 23, 1982

Appendix F

Value -For-Money Auditing

Purpose of the Audits

A value-for-money audit is defined as:

> . . .an examination that provides an objective and constructive assessment of the extent to which:
>
> - financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness; and
> - accountability relationships are reasonably served.

These audits are based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

Value-for-money audits are not designed to question government policies. They are designed to assess whether the programs implemented to achieve those policies are being administered economically and efficiently. They are also concerned with whether members of the Legislative Assembly and the public are provided with appropriate accountability information about government programs.

Audit Subjects

We select for audit either programs or functions administered by a specific ministry or public body, or cross-government programs or functions that apply to many government entities. There are a large number of such programs and functions throughout government. We examine the larger and more significant ones, on a cyclical basis.

We believe that value-for-money audits should be undertaken on a five- to six-year cycle so that members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period.

Audit Results

In the reports that result from these audits, we provide fair, independent assessments of the quality of government administration. We conduct our examinations in a way that enables us to provide positive assessments where they are warranted. Where we cannot provide such assessments, we report the reasons for our reservations. Throughout our audits, we identify opportunities to improve government administration.

Our Audit Process

We carry out these audits in accordance with the procedures detailed in our value-for-money auditing manual. This manual conforms to the value-for-money auditing standards of the Canadian Institute of Chartered Accountants. Although the auditing standards are set by the Canadian Institute of Chartered Accountants, we conduct our value-for-money audits using professionals with a wide range of skills.

One of the value-for-money auditing standards of the Institute requires that the "person or persons carrying out the examination possess the knowledge and competence necessary to fulfill the requirements of the particular audit." In order to meet this standard, we employ professionals with training and experience in a variety of fields, including economics, law, accounting, education, engineering, architecture, management, and auditing. These professionals are engaged full-time in the conduct of value-for-money audits. In addition, we often supplement the knowledge and competence of the audit team formed to carry out a particular audit by engaging a consultant who has expertise in the subject of that audit.

As value-for-money audits, like all audits, involve a comparison of actual performance against a standard of performance, the Institute prescribes standards as to the setting of appropriate performance standards or audit criteria, and the nature and extent of evidence that should be obtained to support the content of the auditor's report. In conducting our audits, we do not demand theoretical perfection from public sector managers. Rather, we seek to determine whether they are meeting the reasonable expectations of legislators and the public.

The Institute's auditing standards address the reporting of audit results as well. We usually make two reports: one to the Legislative Assembly in the form of our Annual Report; and another more detailed report to management of the entity audited.

When undertaking value-for-money audits, auditors can look either at results, to determine whether value-for-money is actually achieved, or at managements' processes, to determine whether those processes should ensure that value is received for money spent.

Neither approach alone can answer all the legitimate questions of legislators and the public, particularly if problems are found during the audit. If the auditor assesses results and finds value for money has not been achieved, the natural questions are "Why did this happen?" and "How can we prevent it from happening in future?" These are questions that can only be answered by looking at the process. On the other hand, if the auditor looks at the process and finds weaknesses, the question that arises is "Do these weaknesses result less than best value being achieved?" This can only be answered by looking at results.

We try, therefore, to combine both approaches wherever we can. However, as acceptable results information and criteria are often not available, our value-for-money audit work frequently concentrates on managements' processes for ensuring value for money.

Appendix G

Public Body Financial Statements Contained in Volume III of the Public Accounts

Entities included in the Government's Consolidated Financial Statements

British Columbia Buildings Corporation
- British Columbia Educational Institutions Capital Financing Authority
- British Columbia Enterprise Corporation

British Columbia Ferry Corporation
- British Columbia Health Care Research Foundation

British Columbia Heritage Trust
British Columbia Housing Management Commission
British Columbia Hydro and Power Authority
British Columbia Lottery Corporation
B.C. Pavilion Corporation
British Columbia Petroleum Corporation (reported by Petroleum Corporation Fund)
British Columbia Railway Company
- British Columbia Regional Hospital Districts Financing Authority
- British Columbia School Districts Capital Financing Authority

British Columbia Steamship Company (1975) Ltd.
British Columbia Systems Corporation
British Columbia Transit
- Creston Valley Wildlife Management Authority Trust Fund

Discovery Foundation
- Health Facilities Association of British Columbia

Housing Corporation of British Columbia
- Legal Services Society
- Medical Services Commission of British Columbia

Pacific Coach Lines Ltd.
- Provincial Capital Commission
- Provincial Rental Housing Corporation

The Science Council of British Columbia and Secretariat on Science, Research and Development (Science Council of British Columbia)
* British Columbia Liquor Distribution Branch (Ministry of Labour and Consumer Services)

Other Entities

- British Columbia Assessment Authority
- British Columbia Housing and Employment Development Financing Authority
- British Columbia Institute of Technology
  Insurance Corporation of British Columbia
- Simon Fraser University
- University of British Columbia
- University of Victoria
- Workers' Compensation Board of British Columbia

Trust Funds

- Public Service Superannuation Fund
- Members of the Legislative Assembly Superannuation Account
- Municipal Superannuation Fund
- Teachers' Pensions Fund
- College Pension Fund
- BC Rail Ltd. Pension Fund
- British Columbia Hydro And Power Authority Pension Fund
- Province of British Columbia Pooled Investment Portfolio, Fund ST1
- Province of British Columbia Pooled Investment Portfolio, Fund ST2

Legend

- Audited by the Auditor General
* Audited by the Auditor General as part of the audit of the Government Accounts (General Fund)

Appendix H

Introduction and Sections A, B and C of the Public Accounts

The material which forms Appendix H is an excerpt from the Public Accounts of British Columbia for the fiscal year ended March 31, 1989.

GOVERNMENT OF THE PROVINCE OF BRITISH COLUMBIA
INTRODUCTION TO THE PUBLIC ACCOUNTS

The Public Accounts are the documents that contain the audited financial statements of the Government and other financial information presented to the Legislative Assembly to show compliance with the various statutory authorities. The Government's financial statements are prepared in accordance with the accounting policies described in this Introduction and on a basis consistent with that of the preceding year, except where a change or variation is explicitly described in the Significant Accounting Policies section below.

Statement of Responsibility

Responsibility for the integrity and objectivity of the financial statements rests with the Government. The financial statements are prepared by the Comptroller General under the direction of the Treasury Board, pursuant to section 8 (2) of the *Financial Administration Act*, in accordance with the Government's stated accounting policies and principles. Each financial statement covers the fiscal year of the Government, which is from April 1 to March 31 of the following year.

The Government carries on its activities through a variety of appropriations, special funds, corporations and agencies. The financial statements are, therefore, prepared to incorporate various levels of activity under its authority:

GENERAL FUND = GENERAL FUND FINANCIAL STATEMENTS (MAIN OPERATING ACCOUNT AND SPECIAL ACCOUNTS)— SECTION A OF PUBLIC ACCOUNTS

GENERAL FUND + **SPECIAL FUNDS** (Funds earmarked for specific purposes.) = COMBINED FINANCIAL STATEMENTS (CONSOLIDATED REVENUE FUND)— SECTION B OF PUBLIC ACCOUNTS

GENERAL FUND + **SPECIAL FUNDS** (Funds earmarked for specific purposes.) + **CROWN CORPORATIONS AND AGENCIES** Service, Provincial, Transportation and Commercial Entities = CONSOLIDATED FINANCIAL STATEMENTS— SECTION C OF PUBLIC ACCOUNTS

The Public Accounts, which are in three volumes, contain the following financial statements:

- *Section A General Fund Financial Statements* — these statements contain the operating activities of the Government including special accounts.
- *Section B Combined Financial Statements* — these statements include the accounts of the Consolidated Revenue Fund, combining the activities of the General Fund (main operating account and special accounts), with funds earmarked for specific purposes, Special Funds.

- *Section C Consolidated Financial Statements* — these statements have been prepared to disclose the economic impact of the Government's activities. They aggregate the Consolidated Revenue Fund and certain Crown corporations: namely, those Crown corporations which exist to service the Government ("service" corporations) and those Crown corporations which conduct Government programs ("provincial" corporations). Crown corporations which are intended to be run on commercial lines are recorded on a modified equity basis.
- *Section D Supplementary Schedules to the Financial Statements* — this section contains schedules which support the information presented in the Province's General Fund financial statements. Section D also contains Detailed Ministry Expenditures — this section contains details of expenditures by ministerial appropriations, together with an analysis of statutory appropriations and Special Funds transactions.
- *Section E Detailed Schedules of Payments* — this section contains detailed schedules of salaries, wages, travel expenses, grants and other payments.
- *Section F Financial Statements of Crown Corporations and Agencies* — this section contains the latest audited financial statements of Crown corporations and other Government agencies: a summary of financial information for those entities included in this section is incorporated in Section F.
- *Section G Financial Statements for various Trust Funds* — this section contains the latest audited financial statements of the pension, superannuation and long-term disability funds administered by the Government. A summary of financial information for Trust Funds is included in this section.

The financial statements included in Volume I comprise the following:

- *Balance Sheet* — a statement of financial position, showing recorded assets and liabilities, with the residual difference being net equity. In addition to the recorded assets, the Province owns a significant number of other assets: fixed assets, including highways, bridges and ferries; and Crown land, which includes parks, forests and all other publicly held land in the Province.
- *Statement of Revenue and Expenditure* — a statement summarizing the items of revenue and expenditure for the fiscal year. The net revenue or expenditure for a year represents the change in net equity for the same period.
- *Statement of Changes in Cash and Temporary Investments* — a statement showing how the operating transactions (being those expenditures and other transactions which affect operating results) and financing transactions (being those transactions such as loans which affect the financial position but not the operating results) have affected the cash and temporary investments position of the Government.
- *Notes and Supplementary Statements to Financial Statements* — these provide additional information on the amounts included in the financial statements and they form an integral part of the financial statements.

Significant Accounting Policies

BASIS OF ACCOUNTING

The accrual basis of accounting is used, which is specifically expressed as follows:

Revenue

All revenues are recorded on an accrual basis except where the accruals cannot be determined with a reasonable degree of certainty or where their estimation is impracticable. The exceptions, which normally relate to certain payments to the Province under the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977*, are recorded on a cash basis. Revenues from Crown corporations are recognized when cash transfers are received or when dividends are declared.

Expenditure

All expenditures, including the cost of fixed assets, are recorded for goods and services received during the year. Grants (which include forgivable loans) are recorded as expenditure when disbursement of the funds has been authorized. Contributions are recorded as expenditure at the earlier of:

(i) the date payment has been authorized; or,
(ii) the date on which performance conditions are achieved by the recipient under provisions of a statute, contract or agreement.

Recoveries of expenditure may be recorded as a credit to the appropriate expenditure account when:

(i) they can be specifically identified with the expenditure transactions and payment has actually been made from an appropriation;
(ii) provision for them has been approved through the Estimates or by Treasury Board; and
(iii) the expenditure to which they relate was incurred in the same fiscal year.

Assets

All assets are recorded to the extent that they represent cash and claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to the year-end. Rental payments for leases which transfer the benefits and risks incident to the ownership of certain assets, not including special purpose buildings, are reported as expenditures at the dates of inception of the leases.

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year-end.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year-end and foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts which specify the rate of exchange. Adjustments to revenue or expenditure transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed-term monetary assets and liabilities are reported as a deferred charges and amortized over the remaining terms of the related items on a straight line basis.

Non-monetary assets and liabilities are translated at historical rates of exchange.

SPECIFIC POLICIES

Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to the year-end. Cheques issued subsequent to the year-end relating to the previous year are included in accounts payable.

Temporary investments include short-term investments recorded at the lower of cost or market value.

Temporary investments consist mainly of units in the Province of British Columbia Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value. Income attributed to the units represents the unitholders' share of interest earned by the Portfolio and is realizable by unitholders upon the sale of units.

Accounts Receivable

All amounts receivable (including any trade receivables from Crown corporations and agencies) at the year-end for work performed, goods supplied or services rendered are recorded as revenue or recoveries of the fiscal year. Provision is made where collectibility is considered doubtful.

Inventories

Inventories comprise items held for resale and are recorded at the lower of cost or net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development, which will eventually be sold to outside parties, is recorded at the lower of cost or net realizable value.

Investments In and Amounts Due From Crown Corporations and Agencies

Investments in and amounts due from Crown corporations and agencies represent long-term investments and amounts due, other than trade receivables, and are recorded at cost unless significant prolonged impairment in value has occurred, in which case they are written down to recognize this loss in value. If, in periods subsequent to recognizing this impairment, the value of the investment is restored, the investment is written up to the lesser of restored value or original cost.

Loans, Advances and Other Investments

Loans, advances and other investments are recorded at cost less adjustment for any prolonged impairment in value.

Mortgages Receivable

Mortgages receivable are secured by real estate and are repayable over periods ranging up to thirty years. Provision is made where collectibility is considered doubtful.

Fiscal Agency Loans

Fiscal Agency loans consist of loans made to government bodies which have been financed by borrowings made by the Minister of Finance and Corporate Relations, in his capacity as fiscal agent, on behalf of government bodies in accordance with the *Financial Administration Act* (S.B.C. 1981, chap. 15). These loans are recorded at maturity value less unamortized discounts and sinking fund balances. Discounts are amortized on an effective yield basis.

Other Assets

Other assets include prepaid program costs. Prepaid program costs represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distributions in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

Fixed Assets

Disbursements for fixed assets are recorded as expenditures in the year the assets are received. Consistent with the reporting of fixed assets as expenditures, highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land in the Province, not including property under development, are recorded at a nominal value of $1.

Accounts Payable and Accrued Liabilities

All amounts payable (including trade payables to Crown corporations and agencies) for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditure of the fiscal year.

Due to Crown Corporations, Agencies and Funds

Amounts due to Crown corporations, agencies and funds represent liabilities incurred, other than trade payables, which are payable in the following year.

Deferred Revenue

Deferred revenue represents amounts received or receivable prior to the year-end relating to revenue that will be earned in subsequent fiscal years.

Public Debt

Public debt represents direct debt obligations for the purposes of the Government of British Columbia and the Fiscal Agency loans. These obligations are recorded at principal less unamortized discounts and sinking fund balances where applicable. Discounts are amortized on an effective yield basis.

Guaranteed Debt

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions.

Commitments

Commitments represent future obligations of the Government for capital contracts and extraordinary program commitments, to the extent of contracts and agreements in place at the year-end.

1989 CHANGES IN ACCOUNTING POLICY

- *Grants and Contributions* — Beginning in fiscal 1988/89 Social Assistance payments are recognized as expenditure when disbursement of the funds has been authorized, rather than in the month to which they were intended to apply. This removes the one exception which formerly existed for recognition of grant expenditures and results in the inclusion, in the 1988/89 operating statement, of March 1989 payments of $64,009,653 and related Canada Assistance Plan revenue of $31,960,856. In prior years, these amounts would have been reported as prepaid program costs and deferred revenue respectively. The net effect of this change is an increase in the prior years' net expenditure which has been shown as a non-operating accounting adjustment of $31,414,265 on the Statement of Revenue and Expenditure.
- *Guaranteed Debt* — Accrued interest and dividends outstanding at the fiscal year-end have been omitted from the guaranteed debt amounts, in accordance with the more generally accepted accounting practice of other governments. As a result, the 1988 net outstanding guaranteed debt has been reduced by $422,186,000.

SECTION A

GENERAL FUND FINANCIAL STATEMENTS AS AT MARCH 31, 1989

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Legislative Assembly
Province of British Columbia

AUDITOR GENERAL

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AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have examined the balance sheet of the General Fund of the Government of the Province of British Columbia as at March 31, 1989, and the related statements of revenue and expenditure and changes in cash and temporary investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required.

I report in accordance with section 7 of the *Auditor General Act*. In my opinion, these financial statements present fairly the financial position of the General Fund as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies as set out in note 1 to these financial statements applied, after giving retroactive effect to the changes explained in the 1989 Changes in Accounting Policy section of the Introduction to the 1988/89 Public Accounts, on a basis consistent with that of the preceding year.

As described in note 1(a), these financial statements reflect only the transactions and balances of the General Fund. Other significant financial activities of the Government occur outside the General Fund. These additional activities are reflected, in part, in the combined financial statements (section B of the Public Accounts), which combine the transactions and balances of the Budget Stabilization Fund and the Privatization Benefits Fund with those of the General Fund. The consolidated financial statements (section C of the Public Accounts) are the summary financial statements of the Government, consolidating the transactions and balances of the General and Special Funds with those of certain Crown corporations and agencies to provide an accounting of substantially the full nature and extent of the financial affairs and resources for which the Government is responsible.

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
August 31, 1989

GENERAL FUND BALANCE SHEET
AS AT MARCH 31, 1989

	Note	1989	1988
		In Thousands	
ASSETS		$	$
Cash and temporary investments	2	682,066	116,351
Accounts receivable	3	942,295	811,647
Inventories	4	126,450	118,786
Investments in and amounts due from Crown corporations and agencies	5	604,181	1,004,058
Loans, advances and other investments	6	274,076	163,027
Mortgages receivable	7	417,680	322,719
Fiscal Agency loans	8	3,811,274	2,623,218
Other assets	9	30,427	166,687
		6,888,449	**5,326,493**
LIABILITIES AND NET EQUITY (DEFICIENCY)			
Liabilities:			
Accounts payable and accrued liabilities	10	1,083,674	992,795
Due to Crown corporations, agencies and funds	11	1,652,690	941,634
Deferred revenue	12	252,720	255,513
Public debt, issued for Government purposes	13	4,919,246	5,016,747
Public debt, to finance Fiscal Agency loans	14	3,813,058	2,623,218
		11,721,388	9,829,907
Net equity (deficiency)	15	(4,832,939)	(4,503,414)
		6,888,449	**5,326,493**
Fixed assets	Introduction		
Contingencies and commitments	18		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance and Corporate Relations:

P.G.Halkett

P. G. HALKETT
Deputy Minister of Finance and Corporate Relations

D. B. MARSON
Comptroller General

GENERAL FUND STATEMENT OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR ENDED MARCH 31, 1989

	In Thousands		
	1989		1988
	Estimates[2]	Actual	Actual
	$	$	$
REVENUE			
Taxation	6,590,000	6,971,648	6,193,635
Natural resources	1,210,000	1,261,327	1,222,958
Other	1,208,000	1,403,943	1,051,542
Privatization transactions (Note 16)		308,518	
Contributions from Government enterprises	448,000	439,017	469,795
Contributions from the Federal Government	2,108,000	2,109,881	2,019,931
Gross revenue	11,564,000	12,494,334	10,957,861
Less: Transfer to Budget Stabilization Fund		(591,917)	(717,377)
Transfers to Privatization Benefits Fund		(308,518)	
Net revenue	**11,564,000**	**11,593,899**	**10,240,484**
EXPENDITURE			
Health	4,010,363	4,012,227	3,684,084
Social services	1,385,668	1,411,132	1,348,804
Education	2,825,767	2,880,584	2,628,234
Protection of persons and property	525,202	553,866	508,879
Transportation	862,805	829,150	927,681
Natural resources and economic development	968,726	866,764	734,840
Other	441,862	444,218	406,098
General government	219,207	206,952	241,992
Debt servicing—Third Parties[1]	595,400	530,787	525,277
Debt servicing—Budget Stabilization Fund	45,000	77,330	
Transfer from Lottery Fund Special Account to Budget Stabilization Fund	79,000	79,000	25,528
Total expenditure (Note 17)	**11,959,000**	**11,892,010**	**11,031,417**
Net Operating Expenditure for the Year	**(395,000)**	**(298,111)**	**(790,933)**
NON-OPERATING TRANSACTIONS			
Accounting adjustment for recognition of grants paid for Social Assistance payments (Introduction)		(31,414)	
Net Expenditure for the Year (Note 15)	**(395,000)**	**(329,525)**	**(790,933)**

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[1] Debt servicing does not include interest of $348,092,167 (1988 – $248,461,000) on borrowings to finance Fiscal Agency loans as the interest revenue and expenditure are offsetting.

[2] This presentation makes no attempt to include additional statutory or other appropriations. Such information is contained in the Statement of Comparison of Estimated Appropriations to Actual Expenditures (see A21 to A36). Estimated expenditure totals have been adjusted to include the $79 million transfer of the Lottery Fund Special Account balance to the Budget Stabilization Fund and the $45 million estimated interest revenue of the Budget Stabilization Fund that were originally presented in the Estimates as a $124 million revenue offset. Estimated totals are otherwise as presented in the Estimates for this fiscal year.

The accompanying notes and supplementary statements are an integral part of these financial statements.

GENERAL FUND
STATEMENT OF CHANGES IN CASH AND TEMPORARY INVESTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989

	In Thousands			
	1989		1988	
	$		$	
OPERATING TRANSACTIONS				
Net operating expenditure for the year		(298,111)		(790,933)
Non-cash items included in net expenditure				
Accounts receivable (increases)	(130,648)		(22,015)	
Accounts payable increases	90,879		96,467	
Due to Crown corporations increases	711,056		519,745	
Public debt increases	21,251		29,681	
Due from Crown corporations (increases)			(3)	
Loans, advances & equity investments decreases	35,213			
Accounting adjustment	(31,414)			
Other under $10 million	2,219		(2,155)	
		698,556		621,720
Cash items applicable to future operations		124,636		(26,188)
Cash derived from (used for) operations		525,081		(195,401)
INVESTMENT TRANSACTIONS				
Loans, advances and other investments (issues)	(146,262)		(8,383)	
Mortgages receivable (issues)	(98,572)		(23,084)	
Divestment of:				
Crown corporations	399,877		36,208	
Other assets	125			
Cash derived from investments		155,168		4,741
Total financial increases (requirements)		680,249		(190,660)
FINANCING TRANSACTIONS				
Increase in public debt issues	1,023,721		602,596	
Less: Used for Fiscal Agency loans	(1,138,255)		(405,463)	
Cash derived from (used for) financing		(114,534)		197,133
Increase in cash and temporary investments		565,715		6,473
Balance — Beginning of Year		116,351		109,878
Balance — End of Year		**682,066**		**116,351**

The accompanying notes and supplementary statements are an integral part of these financial statements.

GENERAL FUND NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989

1. Significant Accounting Policies

(a) REPORTING ENTITY

These financial statements include the transactions and balances of the General and Special Accounts which together are known as the General Fund. Separate combined financial statements of the Government are prepared which include the financial activities of the General Fund and the Special Funds which are together known as the Consolidated Revenue Fund. (*See* Section B of the Public Accounts.) There are also separate consolidated financial statements of the Government which include the financial activities of the Consolidated Revenue Fund and certain Crown corporations and agencies. (*See* Section C of the Public Accounts.)

For purposes of these financial statements, the General and Special Accounts of the Government are presented as one General Fund, which is comprised of:

- General Account — includes all transactions and balances of the Government not otherwise earmarked by legislative action, including those of the British Columbia Liquor Distribution Branch, the Queen's Printer and the Purchasing Commission; and
- Special Accounts — statutory spending authorities for specific purposes with defined limits on total spending as established by the Legislature.

(b) PRINCIPLES OF COMBINATION

The General Account is combined with the Special Accounts after adjusting them to conform with the accounting policies as described below. Inter-account revenue and expenditure transactions are eliminated upon combination.

(c) BASIS OF ACCOUNTING AND SPECIFIC POLICIES

The basis of accounting, specific policies and 1989 changes in accounting policy are as stated in the Introduction to the Public Accounts, with the following amendments:

- Revenue, as specified by the Lieutenant Governor in Council, may be paid into the Budget Stabilization Fund by the Minister of Finance and Corporate Relations, to assist in stabilizing the operating revenues of the Government.
- Privatization proceeds, as specified by the Lieutenant Governor in Council, may be paid into the Privatization Benefits Fund.
- Lottery Fund Special Account money under section 7(c) of the *Lottery Act* may, if authorized by the Lieutenant Governor in Council, be paid into the Budget Stabilization Fund.

2. Cash and Temporary Investments

	In Thousands	
	1989	1988
	$	$
Cash (cheques issued in excess of funds on deposit)	(157,348)	(160,497)
Temporary investments		
Units in Province of British Columbia Pooled Investment Portfolios[1]	839,414	223,409
Other		53,439
	682,066	116,351

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[1] Established pursuant to the *Financial Administration Act*, section 36 (9) (a).

Other than statutory requirements or administrative policies which specifically provide for the maintenance of separate bank accounts, the Government's cash balances and temporary investments are all held in General Fund bank and investment accounts.

GENERAL FUND NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

3. Accounts Receivable

	In Thousands 1989 $	1988 $
Taxes receivable	513,737	429,616
Local government bodies	2,728	4,904
Government of Canada	91,557	69,034
Ministerial accounts receivable	305,364	298,148
Accrued interest	81,110	59,745
Crown corporations and agencies	26,045	20,981
	1,020,541	882,428
Less provision for doubtful accounts	(78,246)	(70,781)
	942,295	811,647

4. Inventories

	In Thousands 1989 $	1988 $
Property under development	67,609	53,118
British Columbia Liquor Distribution Branch	58,008	58,986
Ministerial inventories	833	6,682
	126,450	118,786

5. Investments In and Amounts Due From Crown Corporations and Agencies

	In Thousands 1989			1988
	Investments $	Amounts Due $	Total $	Total $
British Columbia Buildings Corporation		45,199	45,199	55,758
British Columbia Enterprise Corporation	2,041	710	2,751	324,753
British Columbia Ferry Corporation				6,851
British Columbia Food Exhibitions Ltd.[1]				
British Columbia Hydro and Power Authority		8,091	8,091	8,087
B.C. Pavilion Corporation	155,179		155,179	162,008
British Columbia Petroleum Corporation		40,905	40,905	85,905
British Columbia Railway Company	257,923	10,000	267,923	278,231
British Columbia Regional Hospital Districts Financing Authority		12,000	12,000	12,000
British Columbia School Districts Capital Financing Authority		36,500	36,500	36,500
British Columbia Steamship Company (1975) Ltd.[1]				
Discovery Enterprises Inc		10,176	10,176	7,032
Housing Corporation of British Columbia[1]				
Pacific Coach Lines Limited[1]				
Provincial Rental Housing Corporation	634	22,901	23,535	25,011
Workers' Compensation Board of British Columbia		1,922	1,922	1,922
	415,777	188,404	604,181	1,004,058

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[1] The Province's investment is less than one thousand dollars for each of these corporations.

GENERAL FUND NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

5. Investments In and Amounts Due From Crown Corporations and Agencies—Continued

(a) DEFINITIONS

The entire issued capital stock of each of the Crown corporations recorded under investments is owned by the Province. A number of Crown corporations and agencies exist for which the Province has no recorded investment.

Amounts due represent long-term notes and debentures of Crown corporations and agencies held by the Province, in addition to recoverable advances due to the Province.

(b) BRITISH COLUMBIA PETROLEUM CORPORATION (THE CORPORATION)

Prior to July 1, 1985, the Corporation's retained earnings were recorded as due to the Province because these amounts were considered to have been collected in lieu of other forms of taxation. Subsequent to the *Natural Gas Price Act*, the Corporation is no longer a revenue collecting agent of the Province. Any transfer of funds to the Province will be applied to reduce the amount due from the Corporation.

(c) PACIFIC COACH LINES LIMITED (THE COMPANY)

Effective March 31, 1984, the operations of Pacific Coach Lines Limited ceased and wind-up of the Company commenced. The wind-up of the Company will be completed following disposal of the remaining real estate assets. The Ministry of Municipal Affairs assumed responsibility for this Company effective September, 1986.

(d) BRITISH COLUMBIA ENTERPRISE CORPORATION (THE CORPORATION)

During the year, upon instructions from the Government, the Corporation transferred certain assets and liabilities to the Province of British Columbia. These transfers were charged against the Province's investment in the Corporation. The transferred assets included:

(i) loans made under the *Development Corporation Act* now in Loans, advances and other investments of the Province (Note 6);

(ii) proceeds from the sale agreement for the sale of False Creek Lands (the former Expo 86 site) during the year of $320 million and all of the Corporation's related rights, titles and benefits as follows:

- $50 million cash;
- $270 million flow of payments to be received between 1995 and 2003. The present value of this has been determined to be $81.9 million, including $6.9 million in interest income since the date of the sale, and is secured by a letter of credit;
- the right to receive further payments, referred to in the sale agreement as public participation funding, should future development of the Lands exceed a certain square footage of buildable floor space. The amount due from future public participation funding has been estimated to be $111 million, with a March 31, 1989 present value of $20 million. The collection of these payments is secured in part by a mortgage on certain lands and buildings included in the sale.

The $81.9 million and the $20 million totalling $101.9 million are included in the Mortgages receivable (Note 7).

The Government intends to wind-up the operations of this corporation in the subsequent fiscal year.

6. Loans, Advances and Other Investments

	In Thousands	
	1989	1988
	$	$
Low Interest Loan Agreement Revolving Fund Act	9,070	31,845
Homeowner Assistance Act	11,116	17,393
Ministry of Lands, Parks and Housing Act	4,308	12,467
Industrial Development Incentive Act	77,746	40,672
Industrial Development Fund Act	27,168	22,932
Crop Insurance Stabilization Act	13,700	15,200
Agricultural Land Development Act	15,199	16,047
Downtown Revitalization Act	15,274	17,568
Development Corporation Act (Note 5(d))	144,287	
Other	23,035	20,518
	340,903	194,642
Less provision for doubtful accounts	(66,827)	(31,615)
	274,076	163,027

GENERAL FUND NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

7. Mortgages Receivable

	In Thousands	
	1989	1988
	$	$
Crown Land — Pursuant to the *Ministry of Lands, Parks and Housing Act*	31,199	31,013
False Creek Land Sale (Note 5(d))		
Note receivable	81,908	
Public participation funding agreement	20,000	
Provincial Home Acquisition — Pursuant to the *Provincial Home Acquisition Act, Home Purchase Assistance Act,* and the *Home Conversion and Leasehold Loan Act*	303,188	306,376
Other	806	1,140
	437,101	338,529
Less provision for doubtful accounts	(19,421)	(15,810)
	417,680	322,719

8. Fiscal Agency Loans

	In Thousands	
	1989	1988
	$	$
British Columbia Assessment Authority	4,830	4,331
British Columbia Buildings Corporation	210,400	154,693
British Columbia Educational Institutions Capital Financing Authority	15,932	19,385
British Columbia Enterprise Corporation		88,907
British Columbia Regional Hospital Districts Financing Authority	32,743	15,467
British Columbia Hydro and Power Authority	2,347,977	1,218,212
British Columbia Railway Company	73,742	73,939
British Columbia Steamship Company (1975) Ltd		8,572
British Columbia Systems Corporation	19,135	24,570
British Columbia Transit	873,703	835,028
Capital Project Certificate of Approval Program	134,797	90,021
Cariboo District	472	
Greater Vancouver Sewerage and Drainage District	28,265	29,095
Greater Vancouver Water District	19,883	19,750
Improvement Districts	1,509	746
Simon Fraser University	725	
Thompson-Nicola District	861	
University of British Columbia	43,860	40,502
University of Victoria	2,440	
	3,811,274	2,623,218

9. Other Assets

	In Thousands	
	1989	1988
	$	$
Prepaid Program Costs		
Guaranteed Available Income for Need Act (Introduction)		65,708
Medical Services Commission of British Columbia (Note 20)		37,755
Other ministerial prepayments	15,124	45,381
Unamortized issue costs of Public Debt	15,303	17,843
	30,427	166,687

GENERAL FUND NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

10. Accounts Payable and Accrued Liabilities

	In Thousands	
	1989	1988
	$	$
Ministry trade accounts and other liabilities	760,507	567,936
Accrued interest on public debt	224,775	212,875
Accrued employee leave entitlements[1]	71,982	130,835
Forest Act, Section 88[2]	4,954	49,700
Government of Canada	21,456	31,449
	1,083,674	992,795

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[1] Reduction is primarily due to payout of early retirement incentive plan amounts, including related accrued leave entitlements.

[2] Credits issued under Section 88 were discontinued in October 1987.

11. Due to Crown Corporations, Agencies and Funds

	In Thousands	
	1989	1988
	$	$
Special Funds	1,491,152	742,905
Trust Funds	36,445	16,423
British Columbia Colleges and Institutes	12,346	11,923
British Columbia Enterprise Corporation		1,428
British Columbia Housing Management Commission	3,255	25
Legal Services Society	70	
Medical Services Commission of British Columbia	100,646	161,105
Simon Fraser University	1,860	1,766
University of British Columbia	5,723	4,942
University of Victoria	1,193	1,117
	1,652,690	941,634

12. Deferred Revenue

	In Thousands	
	1989	1988
	$	$
Motor vehicle licences and permits	64,565	85,322
Water rentals and recording fees	62,427	64,127
Petroleum, natural gas and minerals, leases and fees	23,660	23,569
Canada Assistance Plan (Introduction)		32,839
Medical Services Plan premiums (Note 20)	44,802	
Miscellaneous	57,266	49,656
	252,720	255,513

GENERAL FUND NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31,1989 — Continued

13. Public Debt Issued for Government Purposes

In Thousands

		1989				1988	
	Year of Maturity	Canadian Dollar Debt $	U.S. Dollar Debt (CDN $) $	Total Canadian Dollars $	Weighted Average Coupon Rate Percent	Total Canadian Dollars $	Weighted Average Coupon Rate Percent
Short term promissory notes	1988–1989					207,394	
	1989–1990	150,100		150,100			
Treasury Bills	1988–1989					780,000	
	1989–1990	780,000		780,000			
Notes and bonds	1988–1989					162,394	11.04
	1989–1990	145,806	182,512	328,318	11.08	330,798	11.08
	1990–1991	705,127	558	705,685	9.69	705,705	9.70
	1991–1992	795,632	558	796,190	9.74	643,454	9.77
	1992–1993	350,500	558	351,058	8.37	337,077	8.41
	1993–1994	500,455	558	501,013	10.15	491,752	10.20
	1994–1999	1,281,609	16,773	1,298,382	9.06	1,298,957	9.06
	1999–2004	348,449		348,449	9.94	348,507	9.94
	2004–2009	60,058		60,058	11.60	60,058	11.60
	2009–2014	220		220	5.13	220	5.13
	2014–2015	51		51	5.13	51	5.13
		4,187,907	201,517	4,389,424	9.61	4,378,973	9.68
Total debt issued at face value		5,118,007	201,517 ($165,245 U.S.)	5,319,524		5,366,367	
Less:							
Sinking funds				(230,195)		(156,490)	
Subtotal				5,089,329		5,209,877	
Unamortized discount				(170,083)		(193,130)	
				4,919,246		5,016,747	

Notes outstanding at March 31, 1989 mature on April 3, 1989 at an annual average interest rate of 12.00%. During the year $575.3 million in notes were issued at interest rates which varied between 8.38% – 12.00%.

Treasury bills outstanding at March 31, 1989 mature at various dates to June 28, 1989 at an annual average interest rate of 11.60%. During the year, $3.12 billion in Treasury bills were issued at interest rates which varied between 8.60% – 12.27%.

The Province had 134 series of notes and bonds outstanding at March 31, 1989.

Included in notes and bonds payable in U.S. currency are Swiss Franc notes totalling 325 million Francs (1988: 325 million Francs) which have been fully hedged to $148.8 million U.S. (1988: $148.8 million U.S.). In October 1988, the $148.8 million U.S. was, in turn, fully hedged to $182 million Canadian through a currency exchange agreement.

Included in notes and bonds payable in Canadian currency are Japanese Yen notes totalling 31.1 billion Yen (1988: 31.1 billion Yen) which have been fully hedged to $220.7 million Canadian (1988: $220.7 million Canadian) through a currency exchange agreement.

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

In Thousands

	Canadian Funds $	U.S. Funds $
1990	208,274	149,536[1]
1991	755,118	687
1992	790,724	687
1993	372 417	687
1994	388,884	687

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[1] $148.8 million U.S. has been fully hedged to $182 million Canadian through a currency exchange agreement.

GENERAL FUND NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31,1989 — Continued

14. Public Debt to Finance Fiscal Agency Loans

In Thousands

		1989				1988	
	Year of Maturity	Canadian Dollar Debt $	U.S. Dollar Debt (CDN $) $	Total Canadian Dollars $	Weighted Average Coupon Rate Percent	Total Canadian Dollars $	Weighted Average Coupon Rate Percent
Short term promissory notes	1988–1989					1,032,954	
	1989–1990	2,223,109	26,764	2,249,873			
Notes and bonds	1988–1989					50,000	10.50
	1989–1990	294,863		294,863	11.21	294,863	11.21
	1990–1991	23,285		23,285	11.55	23,285	11.55
	1991–1992	171,090		171,090	10.22	171,090	10.22
	1992–1993	53,916		53,916	10.17	53,916	10.17
	1993–1994	18,613		18,613	11.38	13,743	12.69
	1994–1999	326,870		326,870	10.18	312,457	10.16
	1999–2004	10,000		10,000	11.65	10,000	11.65
	2004–2009	829,858		829,858	11.05	730,254	11.19
		1,728,495		1,728,495	10.82	1,659,608	10.87
Total debt issued at face value		3,951,604	26,764	3,978,368		2,692,562	
			($22,200 U.S.)				
Less:							
Sinking funds				(76,706)		(43,057)	
Subtotal				3,901,662		2,649,505	
Unamortized discount				(88,604)		(26,287)	
				3,813,058		2,623,218	

Notes outstanding at March 31, 1989 mature at various dates to February 12, 1990 at an annual average interest rate of 11.48%. During the year, $6.9 billion in notes were issued at interest rates which varied between 7.50% – 12.87%.

The Province had 49 issues of notes and debentures outstanding at March 31, 1989.

Included in notes and bonds payable in Canadian currency are Japanese Yen notes totalling 13.4 billion Yen (1988: 13.4 billion Yen) which have been fully hedged to $82.9 million Canadian (1988: $82.9 million) through foreign currency exchange agreements.

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

	In Thousands Canadian Funds $
1990	325,205
1991	52,551
1992	173,856
1993	47,716
1994	33,914

GENERAL FUND NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

15. Net Equity (Deficiency)

	In Thousands 1989 $	 1988 $
Net equity (deficiency) — beginning of year	(4,503,414)	(3,712,481)
Net expenditure for the year	(329,525)	(790,933)
Net equity (deficiency) — end of year	(4,832,939)	(4,503,414)

16. Privatization Transactions During the Year

	In Thousands Gross Proceeds $	 Selling Costs $	 Book Value of Assets $	 Net Proceeds $
Major Transactions:				
British Columbia Hydro and Power Authority — Gas Division and Hydro Rail	776,470	95,000	461,200	220,270
British Columbia Enterprise Corporation	190,056		146,893	43,163
Highways maintenance	37,744	449		37,295
Forests — nurseries	6,667	165		6,502
Other	1,471	59	124	1,288
	1,012,408	95,673	608,217	308,518

17. Expenditure by Group Account Classification

	In Thousands 1989 $	 1988 $
Grants and contributions	8,663,496	7,897,962
Salaries and benefits	1,105,958	1,272,552
Operating costs	1,229,610	1,013,209
Asset acquisitions	231,727	353,718
Transfer to Special Fund	79,000	25,528
Other	1,103,224	848,475
Recoveries	(521,005)	(380,027)
	11,892,010	11,031,417

18. Contingencies and Commitments

(a) GUARANTEED DEBT

Guaranteed debt as at March 31, 1989 totalled $7.7 billion (1988 – $9.3 billion). Included in guaranteed debt is that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government under the authority of a statute as to net principal or redemption provisions. *See* Statement of Guaranteed Debt on A37 for details.

(b) CONTINGENT LIABILITIES

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

The Government has a contingent liability in respect of the following summary of cases where the estimated or known claim is or exceeds $100,000:

- alleged conflict of interest with respect to corporate records; the amount claimed is $15 million;
- claims of $2.5 million for alleged negligence of ambulance drivers;
- claims of $4.7 million have been made regarding motor vehicle accidents;
- claims of $4.2 million have been made regarding contract disputes;

GENERAL FUND NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

18. Contingencies and Commitments — Continued

- claims totalling $18.6 million against assessments for social services tax;
- various claims totalling $9.2 million against assessments for motive fuel, hotel room, logging, mining and corporation capital taxes; and
- various legal actions totalling $4.7 million representing claims for damages to persons and property or other miscellaneous claims.

(ii) Other contingent liabilities

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in the statement of guaranteed debt. Because all other amounts are uncertain, no liability for them has been recorded in these financial statements.

(c) COMMITMENTS

At the end of each year Government has a number of general commitments outstanding for ongoing programs and operations. Such future expenditures are charged to the appropriation in the year in which the work or service is performed.

Commitments totalled approximately:

	In Millions 1989	1988
	$	$
Capital Contracts	75	126
Operating Contracts	987	584
Operating Leases	36	40
	1,098	750

(d) SUPERANNUATION AND PENSION ACTUARIAL VALUATIONS

(i) The Government has statutory responsibilities, in the event of a deficiency existing between the money available for payment of superannuation allowances and the amounts necessary to meet the payment of these allowances, equal to:

- the amount of the deficiency in the case of the Public Service Superannuation Fund; and
- the amount specified by the Lieutenant Governor in Council in the case of the College Pension Fund.

(ii) The funds administered by the Superannuation Commission require that periodic actuarial valuations be performed for the purpose of assessing the adequacy of contribution rates and the financial position of the funds. The reporting of an unfunded liability by the actuary indicates that a deficiency of funds may arise in the future if the actions recommended by the actuary are not followed.

The unfunded liabilities as shown in the **latest actuarial valuations** for the above funds are provided for information purposes:

	In Thousands Public Service Superannuation as at March 31, 1987	College Pension as at August 31, 1988
	$	$
Total actuarial liability	4,480,089	372,225
Less assets:		
Fund	(2,339,150)	(196,055)
Present value of future contributions	(1,684,877)	(146,356)
Unfunded liability	456,062	29,814

(iii) The Government also has statutory responsibility for any deficiency which arises between the money available in the Members of the Legislative Assembly Superannuation Account for the payment of superannuation allowances and the amounts necessary to meet the payment of such allowances. It is the practice of the government to fully fund such deficiencies at the time a Member or his surviving spouse becomes eligible and elects to receive an allowance. An actuarial valuation of the Account is not required by the *Legislative Assembly Allowances and Pension Act* and no such valuation has been performed.

See Section G of the Public Accounts for further details of these plans.

GENERAL FUND NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

19. Trust Funds

Amounts held and administered by the Government at the end of the fiscal year were comprised of the following:

	In Thousands	
	1989	1988
	$	$
Superannuation, Pension and Long-term Disability Funds[1]		
—administered by the Superannuation Commission	10,538,913	9,479,856
Sinking Funds[1,2]		
—administered by the Provincial Treasury	3,894,605	3,107,878
Investment Funds of Crown Corporations and Agencies		
—administered by Provincial Treasury	439,653	245,275
Public Trustee and Official Administrators		
—administered by government officials	277,989	255,284
Supreme and County Court Rules (Suitors' Funds)		
—administered by the Courts	78,514	75,316
Investment Funds of Workers' Compensation Board[1]		
—administered by the Workers' Compensation Board	2,931,735	2,718,955
Other Trust Funds		
—administered by various government officials	65,474	60,553
	18,226,883	15,943,117

Trust funds include amounts held and administered in trust, over which the Government has no power of appropriation.

Cash and investments of the Trust Funds are managed or held by Provincial Treasury, Ministry of Finance and Corporate Relations.

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[1] See Volume III of the Public Accounts for the latest audited financial statements of Superannuation and Pension Funds, the Workers' Compensation Board and most entities whose sinking funds are administered by Provincial Treasury.

[2] Sinking funds include investments held by Financing Authorities (which have essentially the same purpose as sinking funds) and the sinking funds relating to Public Debt as disclosed in Notes 13 and 14 of these financial statements.

20. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation. These reclassifications have had no effect on the operating results or fund balances as previously reported.

Beginning in fiscal 1988/89, Non-residential School Property Tax and Medical Services Plan premiums have been recorded as revenue of the Province. In prior years these amounts were recorded as recoveries of expenditures or revenue of an agency, respectively, in accordance with the presentation of the Estimates. For 1987/88 the amounts were $449,330,296 for Non-residential School Tax (property — business (school purposes)) and $421,154,000 for Medical Services Plan premiums. The affected comparative revenue and expenditure amounts have, therefore, been restated to include these amounts.

GENERAL FUND STATEMENT OF REVENUE BY SOURCE
COMPARISON OF ESTIMATES TO ACTUAL
FOR THE FISCAL YEAR ENDED MARCH 31, 1989

	In Thousands		
	1989		1988
	Estimated $	Actual $	Actual $
Taxation Revenue			
Personal income	2,784,000	2,995,339	2,789,965
Corporation income	557,000	600,270	473,407
Social service	1,657,000	1,716,709	1,463,087
Fuel	508,000	468,867	449,484
Tobacco	240,000	259,191	227,795
Property - business (school purpose)	500,000	490,968	449,330
Property - rural area	40,000	44,666	42,741
Property purchase	162,000	248,559	140,130
Corporation capital	25,000	13,614	56,761
Insurance premium	69,000	82,323	54,215
Hotel room	42,000	45,392	40,028
Horse racing	6,000	5,748	6,682
Succession and gift		2	10
Total Taxation Revenue	**6,590,000**	**6,971,648**	**6,193,635**
Natural Resource Revenue			
Petroleum and Natural Gas			
Natural gas royalties	66,000	55,736	53,665
Permits and fees	90,000	146,099	92,595
Petroleum royalties	49,000	38,400	51,851
	205,000	240,235	198,111
Minerals			
Mining tax	500	3,719	792
Mineral resource tax	14,500	26,431	10,418
Mineral land tax	14,000	12,656	12,215
Coal, minerals and metals royalties	16,000	24,724	22,795
Miscellaneous mining receipts	9,000	7,120	7,366
	54,000	74,650	53,586
Forests			
Logging tax	37,000	50,032	31,531
Timber sales	465,000	413,469	350,506
Small business forest enterprise program	123,000	134,456	47,227
Timber royalties	53,000	62,110	26,731
Lumber export tax		5,782	278,999
Forest scaling fees	4,000	2,824	3,901
Miscellaneous forests receipts	7,000	9,683	5,686
	689,000	678,356	744,581
Other			
Water rentals and recording fees	250,000	255,519	214,971
Wildlife Act — fees and licences	12,000	12,567	11,709
	262,000	268,086	226,680
Total Natural Resource Revenue	**1,210,000**	**1,261,327**	**1,222,958**

GENERAL FUND STATEMENT OF REVENUE BY SOURCE
COMPARISON OF ESTIMATES TO ACTUAL
FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

	In Thousands		
	1989		1988
	Estimated $	Actual $	Actual $
Other Revenue			
Sales and Services			
Medical Services Plan premiums	555,000	580,809	421,154
Lottery Fund Special Account	159,470	188,745	165,064
Farm Income Assurance Fund Special Account	20,000	13,301	12,076
Land registry fees	20,000	24,637	17,661
Real estate earnings of the Crown Land Special Account	28,500	50,831	28,676
Coquihalla highways tolls	14,400	18,400	15,022
Motor vehicle lien and search fees	7,800	7,138	7,060
Ambulance service	9,900	8,918	7,314
Sheriffs' fees	1,000	1,273	1,173
Property tax collection fees	3,000	3,205	2,813
Vital statistics fees	5,400	4,989	3,022
Hearing aid equipment	3,500	3,208	3,532
Sales of maps and airphotos	600	623	530
Insurance and risk management		950	
Miscellaneous sales and services	10,430	2,684	8,533
	839,000	909,711	693,630
Licences and permits			
Motor vehicle licences and permits	165,000	192,664	136,821
Liquor Licencing Branch — permits and fees	6,300	4,920	18,477
Companies Branch	14,400	16,288	11,971
Safety inspection fees	8,000	8,724	7,532
Filing fees — Court Services	14,700	13,824	3,757
Public gaming licences and fees	5,300	7,176	
Camp-site permits and park use	5,100	4,627	4,348
Fire Service Act — fees, etc	5,000	4,779	5,073
Insurance, brokers and real estate	1,200	1,357	4,242
Agricultural licences	900	827	702
Trade and dealer licences	500	389	270
Mobile home registry	2,100	968	692
Miscellaneous licences and permits	9,500	6,684	5,587
	238,000	263,227	199,472
Interest from investments	53,000	133,758	68,355
Miscellaneous			
Fines and penalties	25,000	29,150	24,409
Maintenance of children	17,200	15,906	16,535
Other maintenance receipts	500	514	1,207
Insurance claim receipts	11,200	13,812	11,773
Municipal share of joint-service programs	4,100	4,651	4,595
Other miscellaneous	20,000	33,214	31,566
	78,000	97,247	90,085
Total Other Revenue	**1,208,000**	**1,403,943**	**1,051,542**
Privatization transactions (Note 16)		**308,518**	

GENERAL FUND STATEMENT OF REVENUE BY SOURCE
COMPARISON OF ESTIMATES TO ACTUAL
FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

	In Thousands		
	1989		1988
	Estimated $	Actual $	Actual $
Contributions from Government Enterprises			
Liquor Distribution Branch — net income	425,000	416,255	425,040
British Columbia Railway Company - dividend	10,000		20,615
British Columbia Ferry Corporation - dividend			1,175
Pacific Coach Lines Ltd		50	
British Columbia Buildings Corporation - dividend	13,000	22,712	22,965
Total Contributions from Government Enterprises	**448,000**	**439,017**	**469,795**
Contributions from the Federal Government			
Established Programs Financing	1,297,000	1,230,182	1,215,270
Canada Assistance Plan	623,000	667,799	630,958
National Training Act	33,400	33,509	38,732
Economic development	39,300	48,236	35,759
South Moresby implementation	35,000	34,110	
Transportation and highways	20,900	21,557	17,084
Public Utilities Income Tax Transfer Act	10,000	16,028	10,026
Statutory subsidies	2,500	2,516	2,516
Reciprocal Taxation Agreement	18,700	20,530	24,091
Other payments	28,200	35,414	45,495
Total Contributions from the Federal Government	**2,108,000**	**2,109,881**	**2,019,931**
Gross Revenue	**11,564,000**	**12,494,334**	**10,957,861**
Less:			
Transfer to Budget Stabilization Fund		(591,917)	(717,377)
Transfer to Privatization Benefits Fund		(308,518)	
Net Revenue	**11,564,000**	**11,593,899**	**10,240,484**

Revenue by source is reported after the deduction of amounts considered uncollectable. These amounts totalled $24,072,456 in 1988/89 and were comprised of reductions of Taxation $10,033,997, Natural Resources $9,790,080 and Other Revenue $4,248,379.

Personal and Corporation income tax revenues are recorded after reduction for tax credits of $7,528,023 and $45,859,392 respectively. The types of tax credits reducing Provincial income tax revenues are for foreign taxes, logging taxes, venture capital, political contributions, Housing and Employment Development bond interest, low income tax rebates and royalty tax rebates.

Petroleum and Natural Gas Permits and Fees are net of offsets of $181,000 allowed under Section 68 of the *Petroleum and Natural Gas Act*.

The British Columbia Liquor Distribution Branch revenue is the net income of the Branch after adjusting for the difference in the accounting policies of the Branch from those of the Government. Revenue of $416,255,437 is comprised of gross revenue of $1,238,685,532 less cost of merchandise sold and operating expenses of $823,471,537 and an accounting policy adjustment of $1,041,442 for the change in value of fixed assets. (Refer to Section F of the Public Accounts for complete financial statements of the Branch.)

GENERAL FUND
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1989

Vote No.	Description	Total Appropriations			Actual Expenditure	Net Under Expenditure
		Estimated for the 12 Months Ending March 31, 1989	Other Authorizations	Total		
		$	$	$	$	$
	Legislation					
1	Legislation	**16,623,155**		**16,623,155**	**15,922,497**	**700,658**
	Auditor General					
2	Auditor General	**5,183,490**		**5,183,490**	**5,047,656**	**135,834**
	Ombudsman					
3	Ombudsman	**2,711,589**		**2,711,589**	**2,650,336**	**61,253**
	Office of the Premier and Executive Council Operations					
4	Office of the Premier	6,756,134				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Tourism and Provincial Secretary		(3,628,616)			
	—Transfer from the Ministry of Tourism and Provincial Secretary		300,000	3,427,518	2,969,624	457,894
		6,756,134	**(3,328,616)**	**3,427,518**	**2,969,624**	**457,894**
	Ministry of Advanced Education and Job Training					
5	Minister's Office	248,576		248,576	246,612	1,964
6	Ministry Operations	856,742,355				
	Supplement — Special Warrant No. 11		51,920,000	908,662,355	907,746,855	915,500
7	Science and Technology Development Subsidiary Agreement (ERDA)	4,240,000		4,240,000	3,231,831	1,008,169
8	Vancouver Island/Coast Development Region	796,682				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Parks		(796,682)			
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Economic Development (Vote 20)		2,290,250	2,290,250	2,290,000	250
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Canadian Job Strategy					
	—*Patent Act*					
		862,027,613	**53,413,568**	**915,441,181**	**913,515,298**	**1,925,883**

GENERAL FUND
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

Vote No.	Description	Total Appropriations				
		Estimated for the 12 Months Ending March 31, 1989	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Ministry of Agriculture and Fisheries					
9	Minister's Office	254,982		254,982	227,944	27,038
10	Ministry Operations	62,003,466				
	Supplement—Special Warrant No. 1		9,400,000			
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of International Business and Immigration		(263,046)	71,140,420	68,596,135	2,544,285
11	Milk Board	354,110		354,110	326,962	27,148
12	Provincial Agricultural Land Commission	1,303,413		1,303,413	1,102,654	200,759
13	Agri-Food Regional Development Subsidiary Agreement (ERDA)	7,300,000		7,300,000	6,791,436	508,564
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Environment (Vote 35)		91,500	91,500	91,500	
	Cattle Horn Act (R.S.B.C. 1979, chap. 44, sec. 7)					
	—Livestock Improvement		55,000	55,000	55,000	
	Financial Administration Act (S.B.C. 1981, chap. 15. sec. 22(1)) — net of recoveries					
	—Soft Fruit Cost Survey					
	Financial Administration Act (S.B.C. 1981, chap. 15. sec. 14)					
	—Bad Debt Expense		808,813	808,813	808,813	
	Special Accounts—					
	Farm Income Insurance Act (R.S.B.C. 1979, chap. 123, sec. 2)					
	—Farm Income Assurance Fund	40,000,000		40,000,000	25,349,868	14,650,132
	Livestock Protections Act (R.S.B.C. 1979, chap. 245, sec. 14)					
	—Livestock Protection	11,000		11,000	7,156	3,844
	Agricultural Credit Act (R.S.B.C. 1979, chap. 8, sec. 5(2))					
	—Agricultural Land Development		34,841	34,841	34,841	
	Less transfer to the Farm Income Assurance Fund, Special Account from Vote 10	(20,000,000)		(20,000,000)	(13,300,554)	(6,699,446)
		91,226,971	**10,127,108**	**101,354,079**	**90,091,755**	**11,262,324**
	Ministry of Attorney General					
14	Minister's Office	236,953		236,953	234,233	2,720
15	Ministry Operations	301,463,304				
	Supplement—Special Warrant No. 2		7,297,000			

	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Solicitor General		(122,814,638)			
	—Transfer to the Ministry of International Business and Immigration		(430,000)	185,515,666	184,135,162	1,380,504
16	Emergency Assistance	2,403,500				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Solicitor General		(2,403,500)			
17	Judiciary	20,125,002		20,125,002	19,896,628	228,374
18	Corrections	130,920,494				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Solicitor General		(130,578,919)	341,575	341,575	
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Solicitor General (Vote 68)		196,794	196,794	196,794	
	—Transfer from the Ministry of Solicitor General (Vote 70)		43,710	43,710	43,710	
	Special Accounts—					
	Correction Act (R.S.B.C. 1979, chap. 70, sec. 16.2(3))					
	—Corrections Work Program	200,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Solicitor General		(200,000)			
	Land Title Act (R.S.B.C. 1979, chap. 219, sec. 274(2))					
	—Land Titles Survey	9000		9000		9000
		455,358,253	**(248,889,553)**	**206,468,700**	**204,848,102**	**1,620,598**
	Ministry of State for Thompson-Okanagan and Kootenay, Responsible for Crown Lands					
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Environment (Vote 35)		15,049,945			
	—Transfer from the Ministry of Forests (Vote 41)		14,554,594			
	—Transfer from the Ministry of Regional Development (Vote 41)		1,998,166	31,602,705	30,490,544	1,112,161
	—Transfer from the Ministry of Municipal Affairs, Recreation and Culture (Vote 55)		792,988	792,988	389,346	403,642
	—Transfer from the Ministry of Social Services and Housing (Vote 64)		649,635	649,635	334,905	314,730
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Employee Secondment to B.C.E.C					
			33,045,328	**33,045,328**	**31,214,795**	**1,830,533**
	Ministry of Economic Development					
19	Minister's Office	277,394		277,394	166,815	110,579
20	Ministry Operations	51,593,099				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Advanced Education and Job Training		(2,290,250)			

GENERAL FUND
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

Vote No.	Description	Total Appropriations Estimated for the 12 Months Ending March 31, 1989	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	—Transfer to the Ministry of Government Management Services		(6,605,835)			
	—Transfer to the Ministry of International Business and Immigration		(27,187,221)			
	—Transfer to the Ministry of Regional Development		(15,509,793)			
21	Economic and Regional Development Subsidiary Agreements (ERDA)	14,848,500				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Regional Development		(14,848,500)			
22	Contribution to the British Columbia Pavilion Corporation	6,102,000				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Government Management Services		(6,102,000)			
	Statutory—					
	Special Accounts—					
	Industrial Development Fund Act (R.S.B.C 1979, chap. 194, sec. 1(3))					
	—Industrial Development Subsidiary Agreement Loan Repayment Revolving Fund	1,250,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Regional Development		(1,250,000)			
	Low Interest Loan Assistance Revolving Fund Act (S.B.C. 1985, chap. 44, sec. 2)					
	—Low Interest Loan Assistance Revolving Fund	300,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Regional Development		(300,000)			
	Purchasing Commission Act (R.S.B.C. 1979, chap. 350, sec. 23.1(3))					
	—Purchasing Commission Working Capital Account	5,705,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Government Management Services		(5,705,000)			
		80,075,993	**(79,798,599)**	**277,394**	**166,815**	**110,579**
	Ministry of Education					
23	Minister's Office	211,618		211,618	209,032	2,586
24	Ministry Operations	64,091,579		64,091,579	63,034,556	1,057,023
25	Public Schools Education	1,859,342,139				
	Supplement — Special Warrant No. 3		15,900,000	1,875,242,139	1,869,736,385	5,505,754
26	Independent Schools	48,075,170				

	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 23(3))		(965,908)	47,109,262	46,250,839	858,423
27	Northeast Development Region	813,598				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Native Affairs		(813,598)			
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Status Indian Children Education					
	—Canadian Official Languages Program					
		1,972,534,104	**14,120,494**	**1,986,654,598**	**1,979,230,812**	**7,423,786**
	Ministry of Energy, Mines and Petroleum Resources					
28	Minister's Office	250,592		250,592	250,591	1
29	Ministry Operations	26,909,039		26,909,039	25,999,224	909,815
30	British Columbia Utilities Commission	10		10		10
31	Fort Nelson Indian Band Mineral Revenue Sharing Agreement	800,000		800,000	389,744	410,256
32	Mineral Development and Exploration Incentives	2,527,000		2,527,000	2,305,085	221,915
33	Government Personnel Services	9,508,597				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Government Management Services		(9,508,597)			
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24(1)(c))					
	—Interest on Revenue Refunds		41,221	41,221	41,221	
	Mines Act (S.B.C. 1980, chap. 28, sec. 15(2))					
	—Mine Improvement		500	500	500	
		39,995,238	**(9,466,876)**	**30,528,362**	**28,986,365**	**1,541,997**
	Ministry of State for Cariboo, Responsible for Environment					
34	Minister's Office	260,049		260,049	246,719	13,330
35	Ministry Operations	142,997,238				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Parks		(32,438,130)			
	—Transfer to the Ministry of Crown Lands		(15,049,945)			
	—Transfer to the Ministry of Agriculture and Fisheries		(91,500)			
	—Transfer to the Ministry of Regional Development		(7,829,241)	87,588,422	84,670,839	2,917,583
36	Cariboo Development Region	694,483		694,483	453,882	240,601
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Williston Reservoir					
	—Kokanee Creek Park					
	—Canadian Association of Pesticide Control Officers					
	—Fisheries and Oceans					

GENERAL FUND
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

Vote No.	Description	Total Appropriations: Estimated for the 12 Months Ending March 31, 1989	Total Appropriations: Other Authorizations	Total Appropriations: Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	—Peace Canyon Fish Hatchery					
	Special Accounts—					
	Special Accounts Appropriation and Control Act (S.B.C. 1988, chap. 26, sec. 8)					
	—Habitat Conservation Fund	1,710,000	377,603	2,087,603	2,087,603	
		145,661,770	**(55,031,213)**	**90,630,557**	**87,459,043**	**3,171,514**
	Ministry of Finance and Corporate Relations					
37	Minister's Office	293,411		293,411	286,716	6,695
38	Ministry Operations	61,464,197				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Solicitor General		(275,569)			
	—Transfer to the Ministry of International Business and Immigration		(269,854)	60,918,774	59,934,560	984,214
39	Compensation Stabilization Program	256,677		256,677	107,658	149,019
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Government Management Services (Vote 20)		2,245,266			
	—Transfer from the Ministry of Government Management Services (Vote 57)		403,990	2,649,256	2,469,472	179,784
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 56(1))					
	—Insurance Claims: Health Care Facilities[1]		603,846	603,846	603,846	
	—Insurance Claims and Administration: School Districts and Colleges[1]		283,912	283,912	283,912	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24(1)(c))					
	—Interest on Revenue Refunds		1,410,199	1,410,199	1,410,199	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 14)					
	—Provision for Doubtful Recovery		19,900,000	19,900,000	19,900,000	
	International Financial Business Act (S.B.C. 1988, chap. 16, sec. 21)					
	—International Financial Business		68,136	68,136	68,136	
	Unclaimed Money Act (R.S.B.C. 1979, chap. 418, sec. 15)		9,773	9,773	9,773	
	Special Accounts—					
	Softwood Lumber Products Export Charge Compensation Act (S.B.C. 1987, chap. 65, sec. 2(3))					
	—Lumber Export Charge Compensation Fund	500,000		500,000		500,000
	Education Excellence Appropriation Act (S.B.C. 1986, chap. 6, sec. 1)					

	—Fund for Excellence in Education		279,310,661	279,310,661	279,310,661	
	Health Improvement Appropriation Act (S.B.C. 1986, chap. 9, sec. 1)					
	—Health Improvement Fund		360,039,077	360,039,077	360,039,077	
	Less transfer to General Fund from Fund for Excellence in Education, Special Account		(279,310,661)	(279,310,661)	(279,310,661)	
	Less transfer to the General Fund from Health Improvement Fund		(360,039,077)	(360,039,077)	(360,039,077)	
		62,514,285	**24,379,699**	**86,893,984**	**85,074,272**	**1,819,712**
	Ministry of Forests					
40	Minister's Office	304,458		304,458	223,827	80,631
41	Ministry Operations	366,149,032				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Crown Lands		(14,554,594)			
	—Transfer to the Ministry of Regional Development		(4,270,057)	347,324,381	332,290,274	15,034,107
42	Fire Suppression Program	80,000,000		80,000,000	53,271,299	26,728,701
43	Forest Resource Development Subsidiary Agreement (ERDA)	69,403,505		69,403,505	65,512,940	3,890,565
44	North Coast Development Region	738,176				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Parks		(738,176)			
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Skagit Valley					
	—Boulder Creek					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24(1)(c))					
	—Interest Revenue Refunds		388	388	388	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 21)					
	—Special Warrant No. 4: Funding for Forestry Enhancement Program		600,000	600,000	600,000	
	Special Accounts—					
	Forest Act (R.S.B.C. 1979, chap. 140, sec. 87.1)					
	—Small Business Forest Enterprise Account	53,100,000		53,100,000	46,519,337	6,580,663
	Forest Stand Management Fund Act (S.B.C. 1986, chap. 8, sec. 3)					
	—Forest Stand Management	150,000	1,826,110	1,976,110	1,976,110	
	South Moresby Implementation Account Act (S.B.C. 1988, chap. 60, sec. 4)					
	—South Moresby Implementation	34,800,000		34,800,000	974,663	33,825,337
	Less transfer to Special Account from Vote 41					
	—South Moresby Implementation	(19,690,000)	(322)	(19,690,322)	(19,690,322)	
	—Forest Stand Management Fund	(150,000)	(50,000)	(200,000)	(200,000)	
		584,805,171	**(17,186,651)**	**567,618,520**	**481,478,516**	**86,140,004**
	Ministry of Health					
45	Minister's Office	305,183		305,183	279,466	25,717
46	Ministry Operations	2,637,469,226				
	Supplement—Special Warrant No. 6		14,097,000			

GENERAL FUND
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

Vote No.	Description	Total Appropriations			Actual Expenditure	Net Under Expenditure
		Estimated for the 12 Months Ending March 31, 1989	Other Authorizations	Total		
		$	$	$	$	$
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 23(3))		(449,833)	2,651,116,393	2,649,241,286	1,875,107
47	Medical Services Commission and Pharmacare	1,277,222,011				
	Supplement — Special Warrant No. 5		9,890,000	1,287,112,011	1,280,507,681	6,604,330
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Reciprocal Agreements					
	—Tuberculosis Services to Indians					
	—Aids Lab Research					
		3,914,996,420	**23,537,167**	**3,938,533,587**	**3,930,028,433**	**8,505,154**
	Ministry of International Business and Immigration					
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Agriculture and Fisheries (Vote 10)		263,046			
	—Transfer from the Ministry of Attorney General (Vote 15)		430,000			
	—Transfer from the Ministry of Economic Development (Vote 20)		27,187,221			
	—Transfer from the Ministry of Finance and Corporate Relations (Vote 38)		269,854			
	—Transfer from the Ministry of Tourism and Provincial Secretary (Vote 66)		1,029,106	29,179,227	28,000,600	1,178,627
	Public Service Benefit Plan Act (R.S.B.C. 1979, chap. 344, sec. 5)					
	—B.C. Medical Expenses — B.C. House London, England		802	802	802	
	Legislative Assembly Allowances and Pension Act (R.S.B.C. 1979, chap. 228)					
	—Minister's Office		596	596	596	
			29,180,625	**29,180,625**	**28,001,998**	**1,178,627**
	Ministry of Labour and Consumer Services					
48	Minister's Office	272,097		272,097	246,895	25,202
49	Ministry Operations	24,274,538		24,274,538	23,892,270	382,268
50	Prevention and Treatment of Substance Abuse	48,173,368		48,173,368	38,146,341	10,027,027
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 58(1))					
	—Asia Pacific Business Institute		70,566	70,566	70,566	
	Industrial Relations Act (R.S.B.C. 1979, chap. 212, sec. 123.1(1))					

	—Productivity Fund Special Account		500,000	500,000	500,000	
	Special Accounts—					
	Industrial Relations Act (R.S.B.C. 1979, chap. 212, sec. 123.1(4))					
	—Productivity Fund Special Account	100,000		100,000		100,000
	Less transfer to the Special Account from the *Industrial Relations Act*		(500,000)	(500,000)	(500,000)	
		72,820,003	**70,566**	**72,890,569**	**62,356,072**	**10,534,497**
	Ministry of Municipal Affairs, Recreation and Culture					
51	Minister's Office	280,605		280,605	271,677	8,928
52	Ministry Operations	26,473,397		26,473,397	26,344,771	128,626
53	Municipal Revenue Sharing	239,300,000		239,300,000	239,300,000	
54	Transit Services	171,490,000				
	Supplement—Special Warrant No. 7		1,670,000	173,160,000	173,152,838	7,162
55	Kootenay Development Region	792,988				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Crown Lands		(792,988)			
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Tourism and Provincial Secretary (Vote 66)		27,479,826	27,479,826	27,458,146	21,680
	—Transfer from the Ministry of Transportation and Highways (Vote 68)		7,000	7,000	6,726	274
	—Transfer from the Ministry of Transportation and Highways (Vote 69)		1,745,504	1,745,504	1,661,267	84,237
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 58(1))[1]					
	—Vancouver Symphony		633,670	633,670	633,670	
	Sechelt Indian Government District Home Owner Grant Act (S.B.C. 1988, chap. 57, sec. 3)		75,445	75,445	75,445	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Chilkoot Trail					
	Special Accounts—					
	Revenue Sharing Act (R.S.B.C. 1979, chap. 368, sec. 3)					
	—Revenue Sharing Fund	239,300,000		239,300,000	222,741,940	16,558,060
	University Endowment Lands Act (R.S.B.C. 1979, chap. 420, sec. 3(1))					
	—University Endowment Lands Administration	1,500,000	181,121	1,681,121	1,681,121	
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Tourism and Provincial Secretary — British Columbia Cultural Fund		1,600,000			
	Special Accounts Appropriation and Control Act (S.B.C. 1988, chap. 26, sec. 3)					
	—British Columbia Cultural Fund			1,600,000	1,595,038	4,962
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Tourism and Provincial Secretary — Physical Fitness and Amateur Sports Fund		1,650,000			
	Special Accounts Appropriation and Control Act (S.B.C. 1988, chap. 26, sec. 3)					
	—Physical Fitness and Amateur Sports Fund			1,650,000	1,605,512	44,488

GENERAL FUND
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

Vote No.	Description	Total Appropriations			Actual Expenditure	Net Under Expenditure
		Estimated for the 12 Months Ending March 31, 1989	Other Authorizations	Total		
		$	$	$	$	$
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Tourism and Provincial Secretary — Provincial Computerization of Libraries		261,000			
	Special Appropriations Act (S.B.C. 1982, chap. 40, sec. 7(1))					
	—Provincial Computerization of Libraries			261,000	143,099	117,901
	Less transfer to the Revenue Sharing Fund, Special Account from Vote 53	(239,300,000)		(239,300,000)	(239,300,000)	
		439,836,990	**34,510,578**	**474,347,568**	**457,371,250**	**16,976,318**
	Ministry of State for Nechako and Northeast, Responsible for Native Affairs					
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Education (Vote 27)		813,598	813,598	406,936	406,662
	—Transfer from the Ministry of Transportation and Highways (Vote 68)		1,107,224	1,107,224	1,101,740	5,484
	—Transfer from the Ministry of Transportation and Highways (Vote 71)		576,987	576,987	282,514	294,473
	Special Accounts—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Transportation and Highways — First Citizen's Fund		1,550,000			
	Special Accounts Appropriation and Control Act (S.B.C. 1988, chap. 26, sec. 3)					
	—First Citizen's Fund			1,550,000	1,233,691	316,309
			4,047,809	**4,047,809**	**3,024,881**	**1,022,928**
	Ministry of State for Vancouver Island/Coast and North Coast, Responsible for Parks					
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Advanced Education and Job Training (Vote 8)		796,682	796,682	383,770	412,912
	—Transfer from the Ministry of Environment (Vote 35)		32,438,130	32,438,130	32,101,928	336,202
	—Transfer from the Ministry of Forests (Vote 44)		738,176	738,176	254,858	483,318
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—East Kootenay District Recreation Improvements					
	—Buttle Lake/Upper Campbell Lake Reservoir					
	—Park Enhancement					
			33,972,988	**33,972,988**	**32,740,556**	**1,232,432**

	Ministry of Government Management Services					
56	Minister's Office	236,125		236,125	229,914	6,211
57	Ministry Operations	60,927,088				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Finance and Corporate Relations		(403,990)			
	—Transfer to the Ministry of Regional Development		(15,529,364)			
	—Transfer to the Ministry of Tourism and Provincial Secretary		(12,464,232)	32,529,502	32,205,990	323,512
58	Pensions and Employee Benefits Administration	10		10		10
59	Pensions and Employee Benefits Contributions	10				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20(3))		399,581	399,591	399,591	
60	Mainland/Southwest Development Region	832,974				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Regional Development		(832,974)			
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Economic Development (Vote 20)		6,605,835			
	—Transfer to the Ministry of Finance and Corporate Relations		(2,245,266)	4,360,569	4,271,276	89,293
	—Transfer from the Ministry of Economic Development (Vote 22)		6,102,000	6,102,000	5,588,000	514,000
	—Transfer from the Ministry of Energy, Mines and Petroleum Resources (Vote 33)		9,508,597	9,508,597	8,690,042	818,555
	Special Accounts—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Economic Development—Purchasing Commission Working Capital Account		5,705,000			
	Purchasing Commission Act (R.S.B.C. 1979, chap. 350, sec. 23.1(3))					
	—Purchasing Commission Working Capital Account		1,537,301	7,242,301	7,242,301	
		61,996,207	**(1,617,512)**	**60,378,695**	**58,627,114**	**1,751,581**
	Ministry of Regional Development and Ministry of State for Mainland/Southwest					
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Economic Development (Vote 20)		15,509,793			
	—Transfer from the Ministry of Environment (Vote 35)		7,829,241			
	—Transfer from the Ministry of Forests (Vote 41)		4,270,057			
	—Transfer to the Ministry of Crown Lands		(1,998,166)			
	—Transfer from the Ministry of Government Management Services (Vote 57)		15,529,364			
	—Transfer from the Ministry of Tourism and Provincial Secretary (Vote 66)		651,350	41,791,639	40,451,353	1,340,286
	—Transfer from the Ministry of Economic Development (Vote 21)		14,848,500	14,848,500	3,523,731	11,324,769
	—Transfer from the Ministry of Government Management Services (Vote 60)		832,974	832,974	524,944	308,030

GENERAL FUND
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

		Total Appropriations				
Vote No.	Description	Estimated for the 12 Months Ending March 31, 1989	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Special Accounts—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Economic Development—Industrial Development Subsidiary Agreement Loan Repayment Revolving Fund		1,250,000			
	Industrial Development Fund Act (R.S.B.C. 1979, chap. 194, sec. 1(3))					
	—Industrial Development Subsidiary Agreement Loan Repayment Revolving Fund		11,135,933	12,385,933	12,385,933	
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Economic Development — Low Interest Assistance Revolving Fund		300,000			
	Low Interest Loan Assistance Revolving Fund Act (S.B.C. 1985, chap. 44, sec. 2)					
	—Low Interest Loan Assistance Revolving Fund		664,727	964,727	964,727	
			70,823,773	**70,823,773**	* **57,850,688**	**12,973,085**
	Ministry of Social Services and Housing					
61	Minister's Office	224,319		224,319	221,599	2,720
62	Ministry Operations	1,387,596,502				
	Supplement—Special Warrant No. 8		46,800,000	1,434,396,502	1,422,464,052	11,932,450
63	British Columbia Home Program	10		10		10
64	Thompson- Okanagan Development Region	649,635				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Crown Lands		(649,635)			
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Employment Initiatives Projects					
	Special Accounts—					
	Home Conversion and Leasehold Loan Act (R.S.B.C. 1979, chap. 170, sec. 17(1)) and *Home Purchase Assistance Act* (R.S.B.C. 1979, chap. 172, sec. 21 (1))					
	—Provincial Home Acquisition	5,200,000	4,173,817	9,373,817	9,373,817	
		1,393,670,466	**50,324,182**	**1,443,994,648**	**1,432,059,468**	**11,935,180**

	Ministry of Solicitor General					
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Attorney General (Vote 15)		122,814,638			
	Supplement—Special Warrant No. 9		415,000			
	—Transfer from the Ministry of Finance and Corporate Relations (Vote 38)		275,569	123,505,207	123,321,250	183,957
	—Transfer from the Ministry of Attorney General (Vote 16)		2,403,500	2,403,500	495,901	1,907,599
	—Transfer from the Ministry of Attorney General (Vote 18)		130,578,919			
	Supplement—Special Warrant No. 10		1,993,000	132,571,919	132,206,827	365,092
	—Transfer from the Ministry of Transportation and Highways (Vote 68)		1,670,109			
	—Transfer to the Ministry of Attorney General		(196,794)	1,473,315	1,473,315	
	—Transfer from the Ministry of Transportation and Highways (Vote 69)		720,362	720,362	720,362	
	—Transfer from the Ministry of Transportation and Highways (Vote 70)		41,420,822			
	—Transfer to the Ministry of Attorney General		(43,710)	41,377,112	41,238,916	138,196
	Police Act (R.S.B.C. 1979, chap. 331, sec. 7(4))					
	—Video Camera Use Study		40,543	40,543	40,543	
	Inquiry Act (R.S.B.C. 1979, chap. 198, sec. 18)					
	—Vancouver Police Inquiry		80,077	80,077	80,077	
	Flood Relief Act (R.S.B.C. 1979, chap. 138, sec. 2)					
	—Pemberton Flood		362,253	362,253	362,253	
	—North-East B.C. Flood		854,287	854,287	854,287	
	—North-West B.C. Flood		1,161,582	1,161,582	1,161,582	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Employee Secondment to Federal Government					
	Special Accounts—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Attorney General—Corrections Work Program		200,000			
	Correction Act (R.S.B.C. 1979, chap. 70, sec. 16.2(3))					
	—Corrections Work Program		222,426	422,426	422,426	
			304,972,583	**304,972,583**	**302,377,739**	**2,594,844**
	Ministry of Tourism and Provincial Secretary					
65	Minister's Office	243,459		243,459	229,415	14,044
66	Ministry Operations	45,672,508				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of International Business and Immigration		(1,029,106)			
	—Transfer to the Ministry of Regional Development		(651,350)			
	—Transfer to the Ministry of Municipal Affairs, Recreation and Culture		(27,479,826)	16,512,226	16,258,662	253,564
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from the Ministry of Government Management Services (Vote 57)		12,464,232	12,464,232	12,443,994	20,238
	—Transfer from the Office of the Premier (Vote 4)		3,628,616			

GENERAL FUND
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

Vote No.	Description	Total Appropriations			Actual Expenditure	Net Under Expenditure
		Estimated for the 12 Months Ending March 31, 1989	Other Authorizations	Total		
		$	$	$	$	$
	—Transfer to the Office of the Premier		(300,000)	3,328,616	3,280,913	47,703
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Expo 86					
	—Academic Initiatives Program					
	—Canadian Broadcasting Corporation—Records					
	—Canada's West					
	—World Travel Mart					
	Police Act (R.S.B.C. 1979, chap. 331, sec. 44)					
	—Fullerton Inquiry		4,523	4,523	4,523	
	Elections Act (R.S.B.C. 1979, chap. 103, sec. 191(1))[1]					
	—By-election Boundary Similkameen		289,558	289,558	289,558	
	—By-election Alberni		329,212	329,212	329,212	
	—By-election Nanaimo		204,416	204,416	204,416	
	—By-election Vancouver Point Grey		595,288	595,288	595,288	
	—Electoral Boundary Redistribution		173,131	173,131	173,131	
	—Enumeration 1989		255,866	255,866	255,866	
	—*Election Act*—General		289,326	289,326	289,326	
	Inquiry Act (R.S.B.C. 1979, chap. 198, sec. 18)[1]					
	—Royal Commission on Coquihalla Highway Costs		10,978	10,978	10,978	
	—Royal Commission on Oakalla Prison		132,864	132,864	132,864	
	—Royal Commission on Education		1,171,608	1,171,608	1,171,608	
	—Royal Commission on Station Square—Burnaby		221,338	221,338	221,338	
	—Royal Commission on Electoral Boundaries		600,123	600,123	600,123	
	—Royal Commission on Social Housing		418	418	418	
	Special Accounts—					
	Special Accounts Appropriation and Control Act (S.B.C. 1988, chap. 26, sec. 3)					
	—British Columbia Cultural Fund	1,600,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Municipal Affairs, Recreation and Culture		(1,600,000)			
	Special Accounts Appropriation and Control Act (S.B.C. 1988, chap. 26, sec. 3)					
	—Physical Fitness and Amateur Sports Fund	1,650,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Municipal Affairs, Recreation and Culture		(1,650,000)			
	Special Appropriations Act (S.B.C. 1982, chap. 40, sec. 7(1))					

	—Provincial Computerization of Libraries	261,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Municipal Affairs, Recreation and Culture		(261,000)			
		49,426,967	**(12,599,785)**	**36,827,182**	**36,491,633**	**335,549**
	Ministry of Transportation and Highways					
67	Minister's Office	280,361		280,361	246,719	33,642
68	Administration and Support Services	97,125,770				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Municipal Affairs, Recreation and Culture		(7,000)			
	—Transfer to the Ministry of Native Affairs		(1,107,224)			
	—Transfer to the Ministry of Solicitor General		(1,670,109)	94,341,437	94,332,362	9,075
69	Highway Operations Department	590,355,241				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Municipal Affairs, Recreation and Culture		(1,745,504)			
	—Transfer to the Ministry of Solicitor General		(720,362)	587,889,375	558,177,982	29,711,393
70	Motor Vehicle Department	41,420,822				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Solicitor General		(41,420,822)			
71	Nechako Development Region	576,987				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Native Affairs		(576,987)			
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22(1)) — net of recoveries					
	—Employee Secondment to Federal Government					
	Special Accounts—					
	Special Appropriations Act (S.B.C. 1982, chap. 40, sec. 7(1))					
	—First Citizens' Fund	1,550,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to the Ministry of Native Affairs		(1,550,000)			
		731,309,181	**(48,798,008)**	**682,511,173**	**652,757,063**	**29,754,110**
	Other Appropriations					
72	Management of the Public Debt (Ministry of Finance and Corporate Relations)	605,000,000				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 53)		6,929,875	611,929,875	611,929,875	
73	Contingencies (All Ministries) (Ministry of Finance and Corporate Relations)	50,000,000		50,000,000	22,018,857	27,981,143
74	New Programs	90,000,000		90,000,000	60,795,285	29,204,715

GENERAL FUND
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

Vote No.	Description	Total Appropriations				
		Estimated for the 12 Months Ending March 31, 1989	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 14)					
	—Valuation Allowance—B.C. Ferry Corporation		6,851,184	6,851,184	6,851,184	
	—Valuation Allowance—B.C. Steamship (1975) Ltd		8,278,309	8,278,309	8,278,309	
	—Valuation Allowance—B.C. Pavilion Corporation		7,272,067	7,272,067	7,272,067	
	Special Accounts—					
	Ministry of Lands, Parks and Housing Act (R.S.B.C. 1979, chap. 277, sec. 7(2))					
	—Crown Land	20,000,000	8,164,862	28,164,862	28,164,862	
	Lottery Act (R.S.B.C. 1979, chap. 249, secs. 6 and 7)					
	—Lottery Fund	80,470,000	83,887,198	164,357,198	164,357,198	
		845,470,000	**121,383,495**	**966,853,495**	**909,667,637**	**57,185,858**
	Total General Fund Expenditure 1989	**11,835,000,000**	**331,193,150**	**12,166,193,150**	**11,892,010,418**	**274,182,732**
	Summary					
	Voted Expenditure	11,624,774,000	(1,016,160)	11,623,757,840	11,453,830,374	169,927,466
	Statutory—					
	Special Accounts	489,366,000	751,555,677	1,240,921,677	1,168,210,981	72,710,696
	Special Warrants		159,982,000	159,982,000	128,667,859	31,314,141
	Various Acts		60,571,693	60,571,693	53,641,818	6,929,875
	Less Inter-Account Transfers	(279,140,000)	(639,900,060)	(919,040,060)	(912,340,614)	(6,699,446)
	Total General Fund Expenditure	**11,835,000,000**	**331,193,150**	**12,166,193,150**	**11,892,010,418**	**274,182,732**
	Total General Fund Expenditure 1988[2]	**11,090,484,296**	**199,022,164**	**11,289,506,460**	**11,031,417,763**	**258,088,697**

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[1] Statutory accounts which have been transferred under the *Constitution Act* (R.S.B.C. 1979, chap. 62, secs. 13 and 14)

[2] Prior year estimates and expenditure comparisons have been restated to increase gross spending for Medical Services Plan purposes by $421,154,000 and to exclude Non-residential School Tax recoveries of $449,330,296 in accordance with 1988/89 format (Note 20).

GENERAL FUND STATEMENT OF GUARANTEED DEBT
AS AT MARCH 31, 1989

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions.

	In Thousands	
	1989 Net Outstanding[2]	1988 Net Outstanding[2,5]
	$	$
Municipalities and other local governments—		
(1) Guarantees authorized pursuant to the *Municipalities Assistance Act*, sec. 3	772	1,202
(2) Guarantees authorized pursuant to the *Municipal Act*, sec. 854 —		
Debentures	8,982	10,685
Subtotal, municipalities and other local governments	9,754	11,887
Government services—		
(3) Guarantees authorized pursuant to the *British Columbia Buildings Corporation Act*, sec. 13[1]—		
Debentures	211,004	233,079
Mortgage	2,260	2,296
(4) Guarantees authorized pursuant to the *System Act*, sec. 20[1] —		
Debentures	20,820	21,890
Subtotal, government services	234,084	257,265
Health and education[4] —		
(5) Guarantees authorized pursuant to the *Educational Institution Capital Finance Act*, sec. 9[1] —		
Debentures	360,968	342,570
(6) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56 —		
Student aid loans	62,042	38,055
Science World	5,250	
Simon Fraser University— Debentures	3,564	3,638
(7) Guarantees authorized pursuant to the *Hospital District Finance Act*, sec. 9[1] —		
Debentures	730,305	700,659
(8) Guarantees authorized pursuant to the *School District Capital Finance Act*, sec. 9[1] —		
Debentures	808,690	825,863
Subtotal, health and education	1,970,819	1,910,785
Economic development—		
(9) Guarantees authorized pursuant to the *Agricultural Credit Act*, sec. 3	1,617	1,872
(10) Guarantees authorized pursuant to the *British Columbia Enterprise Corporation Act*, sec. 6[1]	38,579	78,305
(11) Guarantees authorized pursuant to the *British Columbia Railway Finance Act*, sec. 10[1] —		
Capital leases	23,792	24,364
1st preferred shares — BC Rail Ltd	200,000	200,000
(12) Guarantees authorized pursuant to the *British Columbia Transit Act*, sec. 22[1] —		
Bonds and debentures	48,288	50,312
Capital leases	215,450	219,972
(13) Guarantees authorized pursuant to the *Farm Product Industry Act*, sec. 2	1,750	1,750
(14) Guarantees authorized pursuant to the *Ferry Corporation Act*, sec. 18[1] —		
Notes	29,771	35,978
Capital leases	45,438	41,627
(15) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56 —		
Vancouver Symphony Orchestra		750
East Chilliwack Co-op	2,000	
Kootenay Tractor and Supply Ltd	300	
Regional Seed Capital Program	754	
Nova Lumber Company	835	

GENERAL FUND STATEMENT OF GUARANTEED DEBT AS AT MARCH 31, 1989 — Continued

(16) Indemnities authorized pursuant to the *Financial Administration Act*, sec. 56 —		
The Terry Fox Medical Research Foundation, *et al*		8,000
Moli Energy Limited		25,000
(17) Guarantees authorized pursuant to the *Housing and Employment Development Financing Act*, secs. 5 and 6[1] —		
Bonds and debentures	889	1,219
Subtotal, economic development	609,463	689,149
Utilities —		
(18) Guarantees authorized pursuant to the *Hydro and Power Authority Act*, sec. 44[1,6] —		
Bonds and debentures	4,712,366	6,465,112
(19) Guarantees Authorized pursuant to the *Financial Administration Act*, sec. 56 —		
Exchangeable Bonds, B.C. Gas	150,000	
Subtotal, utilities	4,862,366	6,465,112
Grand total, all guaranteed debt	7,686,486	9,334,198
Less: Amounts included above held by General Fund[3]	(8,572)	(8,143)
Net total, all guaranteed debt	**7,677,914**	**9,326,055**

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[1] *See* Section F of the Public Accounts for details of maturity dates, interest rates and redemption features of the outstanding debt of these Crown agencies.

[2] Net outstanding guaranteed debt includes gross principal debt less sinking fund balances, and represents the total amount of contingent liability of the Government arising from relevant guarantees. Amounts payable in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the fiscal year-end.

[3] As a result of Government financing and investment policies, $2.2 billion of guaranteed debt is held by Trust Funds actively managed by the Government.

[4] The Government is directly responsible for paying 57.78% to 100% of debt service costs for health and education debt through various grant formulas. In 1988/89 the contributions totalled approximately $315 million or 77.98% of debt service costs.

[5] Net outstanding guaranteed debt excludes accrued interest. (Introduction — 1989 Changes in Accounting Policy).

[6] Guaranteed debt for British Columbia Hydro and Power Authority for 1987/88 has been restated to correct an overstatement of $120 million.

GENERAL FUND STATEMENT OF INFORMATION REQUIRED UNDER SECTION 8 (2) (b) (iii) OF THE *FINANCIAL ADMINISTRATION ACT* FOR THE FISCAL YEAR ENDED MARCH 31, 1989

	In Thousands			
Ministry of	Money Refunded	Assets & Uncollectible Debts Written-Off	Debts and Obligations Forgiven	Remissions Made
	$	$	$	$
Advanced Education and Job Training	312	107		
Education	73			
Energy, Mines and Petroleum Resources		218		
State for Cariboo, Responsible for Environment	142			
Finance and Corporate Relations	1,060	6,274		
Forests	265	9,911	106	
Health	6,979	1,714		
Municipal Affairs, Recreation and Culture	26	336		
Regional Development and Ministry of State for Mainland/Southwest.			1,902	
Social Services and Housing		77		
Transportation and Highways	33	25		
Total 1989	8,890	18,662	2,008	
Total 1988	16,181	21,805	50	264

This statement includes amounts authorized by sections 13,14,15 and 16 of the *Financial Administration Act*. Amounts authorized for refund, write-off, forgiveness or remission by other statutes are not shown separately in these financial statements.

SECTION B

COMBINED FINANCIAL STATEMENTS

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Legislative Assembly
Province of British Columbia

AUDITOR GENERAL

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AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have examined the combined balance sheet of the Consolidated Revenue Fund of the Government of the Province of British Columbia as at March 31, 1989, and the related statements of revenue and expenditure and changes in cash and temporary investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required.

I report in accordance with section 7 of the *Auditor General Act*. In my opinion, these combined financial statements present fairly the financial position of the Consolidated Revenue Fund as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies as set out in note 1 to these financial statements applied, after giving retroactive effect to the changes explained in the 1989 Changes in Accounting Policy section of the Introduction to the 1988/89 Public Accounts, on a basis consistent with that of the preceding year.

As described in note 1(a), these financial statements reflect only the transactions and balances of the Consolidated Revenue Fund, which consists of the General Fund, the Budget Stabilization Fund and the Privatization Benefits Fund. Other significant financial activities of the Government occur outside this reporting entity. These additional activities are reflected in the consolidated financial statements (section C of the Public Accounts), which are the summary financial statements of the Government, consolidating the transactions and balances of the General and Special Funds with those of certain Crown corporations and agencies to provide an accounting of substantially the full nature and extent of the financial affairs and resources for which the Government is responsible.

George L. Morfitt

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
August 31, 1989

COMBINED BALANCE SHEET
AS AT MARCH 31, 1989

	Note	In Thousands 1989 $	 1988 $
ASSETS			
Cash and temporary investments	2	978,276	116,351
Accounts receivable	3	934,706	811,647
Inventories	4	126,450	118,786
Investments in and amounts due from Crown corporations and agencies	5	604,181	1,004,058
Loans, advances and other investments	6	294,028	163,027
Mortgages receivable	7	417,680	322,719
Fiscal Agency loans	8	3,811,274	2,623,218
Other assets	9	30,427	166,687
		7,197,022	**5,326,493**
LIABILITIES AND NET EQUITY (DEFICIENCY)			
Liabilities:			
Accounts payable and accrued liabilities	10	1,083,674	992,795
Due to Crown corporations, agencies and funds	11	161,538	198,729
Deferred revenue	12	252,776	255,513
Public debt, issued for Government purposes	13	4,919,246	5,016,747
Public debt, to finance Fiscal Agency loans	14	3,813,058	2,623,218
		10,230,292	9,087,002
Net equity (deficiency)	15	(3,033,270)	(3,760,509)
		7,197,022	**5,326,493**
Fixed assets	Introduction		
Contingencies and commitments	17		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance and Corporate Relations:

P.G.Halkett

P. G. HALKETT
Deputy Minister of Finance and Corporate Relations

D. B. MARSON
Comptroller General

COMBINED STATEMENT OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR ENDED MARCH 31, 1989

	In Thousands	
	1989	1988
	$	$
REVENUE		
Taxation	6,971,648	6,193,635
Natural resources	1,261,327	1,222,958
Other	1,712,460	1,051,542
Contributions from Government enterprises	439,017	469,795
Contributions from the Federal Government	2,109,881	2,019,931
Total revenue	12,494,333	10,957,861
EXPENDITURE		
Health	4,012,227	3,684,084
Social services	1,411,132	1,348,804
Education	2,880,584	2,628,234
Protection of persons and property	553,866	508,879
Transportation	829,150	927,681
Natural resources and economic development	866,764	734,840
Other	444,218	406,098
General government	206,952	241,992
Debt servicing[1]	530,787	525,277
Total expenditure (Note 16)	**11,735,680**	**11,005,889**
Net Operating Revenue (Expenditure) for the Year	758,653	(48,028)
NON-OPERATING TRANSACTIONS		
Accounting adjustment for recognition of grants paid for Social Assistance payments (Introduction)	(31,414)	
Net Revenue (Expenditure) for the Year (Note 15)	**727,239**	**(48,028)**

---

[1] Debt servicing does not include interest of $348,092,167 (1988 – $248,461,000) on borrowings to finance Fiscal Agency loans as the interest revenue and expenditure are offsetting.

The accompanying notes and supplementary statements are an integral part of these financial statements.

COMBINED STATEMENT OF CHANGES IN CASH AND TEMPORARY INVESTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989

	In Thousands			
	1989		1988	
	$		$	
OPERATING TRANSACTIONS				
Net operating revenue (expenditure) for the year		758,653		(48,028)
Non-cash items included in net expenditure				
Accounts receivable (increases)	(123,060)		(22,015)	
Accounts payable increases	90,879		96,467	
Due to Crown corporations (decreases)	(37,191)		(223,160)	
Public debt increases	21,251		29,681	
Accounting adjustment	(31,414)		(3)	
Loans, advances and equity investment decreases	35,213			
Other under $10 million	2,219		(2,155)	
		(42,103)		(121,185)
Cash items applicable to future operations		124,693		(26,188)
Cash derived from (used for) operations		841,243		(195,401)
INVESTMENT TRANSACTIONS				
Loans, advances and other investments (issues)	(166,214)		(8,383)	
Mortgages receivable (issues)	(98,572)		(23,084)	
Divestment of:				
Crown corporations	399,877		36,208	
Other assets	125			
Cash derived from investments		135,216		4,741
Total financial increases (requirements)		976,459		(190,660)
FINANCING TRANSACTIONS				
Increase in public debt issues	1,023,721		602,596	
Less: Used for Fiscal Agency loans	(1,138,255)		(405,463)	
Cash derived from (used for) financing		(114,534)		197,133
Increase in cash and temporary investments		861,925		6,473
Balance — Beginning of Year		116,351		109,878
Balance — End of Year		**978,276**		**116,351**

The accompanying notes and supplementary statements are an integral part of these financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989

1. Significant Accounting Policies

(a) REPORTING ENTITY

These financial statements include the transactions and balances of the General Fund and Special Funds which combined are known as the Consolidated Revenue Fund. Separate consolidated financial statements of the Government are prepared which include the financial activities of the Consolidated Revenue Fund and certain Crown corporations and agencies. (*See* Section C of the Public Accounts.)

For purposes of these financial statements, the accounts of the Government are presented as one Consolidated Revenue Fund, which is comprised of:

- General Fund — includes all transactions and balances of the Government not otherwise earmarked by legislative action, including the accounts of the British Columbia Liquor Distribution Branch, the Queen's Printer and the Purchasing Commission, special accounts and other statutory spending authorities; and
- Special Funds — amounts set aside from the General Fund by special disposition of the Legislature.

(b) PRINCIPLES OF COMBINATION

The accounts of the General Fund are combined with the Special Funds after adjusting them to conform with the accounting policies as described below. Interfund revenue and expenditure transactions are eliminated upon combination.

(c) BASIS OF ACCOUNTING AND SPECIFIC POLICIES

The basis of accounting, specific policies and 1989 changes in accounting policy are as stated in the Introduction to the Public Accounts.

2. Cash and Temporary Investments

	In Thousands	
	1989	1988
	$	$
Cash (cheques issued in excess of funds on deposit)	(157,348)	(160,497)
Temporary investments		
Units in Province of British Columbia Pooled Investment Portfolios[1]	1,135,624	223,409
Other		53,439
	978,276	116,351

---

[1] Established pursuant to the *Financial Administration Act*, section 36 (9) (a).

Other than statutory requirements or administrative policies which specifically provide for the maintenance of separate bank accounts, the Government's cash balances and temporary investments are all held in General Fund bank and investment accounts.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

3. Accounts Receivable

	In Thousands	
	1989	1988
	$	$
Taxes receivable	513,737	429,616
Local government bodies	2,728	4,904
Government of Canada	91,557	69,034
Ministerial accounts receivable	297,775	298,148
Accrued interest	81,110	59,745
Crown corporations and agencies	26,045	20,981
	1,012,952	882,428
Less provision for doubtful accounts	(78,246)	(70,781)
	934,706	811,647

4. Inventories

	In Thousands	
	1989	1988
	$	$
Property under development	67,609	53,118
British Columbia Liquor Distribution Branch	58,008	58,986
Ministerial inventories	833	6,682
	126,450	118,786

5. Investments In and Amounts Due From Crown Corporations and Agencies

	In Thousands			
	1989			1988
	Investments $	Amounts Due $	Total $	Total $
British Columbia Buildings Corporation		45,199	45,199	55,758
British Columbia Enterprise Corporation	2,041	710	2,751	324,753
British Columbia Ferry Corporation				6,851
British Columbia Food Exhibitions Ltd.[1]				
British Columbia Hydro and Power Authority		8,091	8,091	8,087
B. C. Pavilion Corporation	155,179		155,179	162,008
British Columbia Petroleum Corporation		40,905	40,905	85,905
British Columbia Railway Company	257,923	10,000	267,923	278,231
British Columbia Regional Hospital Districts Financing Authority		12,000	12,000	12,000
British Columbia School Districts Capital Financing Authority		36,500	36,500	36,500
British Columbia Steamship Company (1975) Ltd.[1]				
Discovery Enterprises Inc		10,176	10,176	7,032
Housing Corporation of British Columbia[1]				
Pacific Coach Lines Limited[1]				
Provincial Rental Housing Corporation	634	22,901	23,535	25,011
Workers' Compensation Board of British Columbia		1,922	1,922	1,922
	415,777	188,404	604,181	1,004,058

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[1] The Province's investment is less than one thousand dollars for each of these corporations.

NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

5. Investments In and Amounts Due From Crown Corporations and Agencies—Continued

(a) DEFINITIONS

The entire issued capital stock of each of the Crown corporations recorded under investments is owned by the Province. A number of Crown corporations and agencies exist for which the Province has no recorded investment.

Amounts due represent long-term notes and debentures of Crown corporations and agencies held by the Province, in addition to recoverable advances due to the Province.

(b) BRITISH COLUMBIA PETROLEUM CORPORATION (THE CORPORATION)

Prior to July 1, 1985, the Corporation's retained earnings were recorded as due to the Province because these amounts were considered to have been collected in lieu of other forms of taxation. Subsequent to the *Natural Gas Price Act*, the Corporation is no longer a revenue collecting agent of the Province. Any transfer of funds to the Province will be applied to reduce the amount due from the Corporation.

(c) PACIFIC COACH LINES LIMITED (THE COMPANY)

Effective March 31, 1984, the operations of Pacific Coach Lines Limited ceased and wind-up of the Company commenced. The wind-up of the Company will be completed following disposal of the remaining real estate assets. The Ministry of Municipal Affairs assumed responsibility for this Company effective September 1986.

(d) BRITISH COLUMBIA ENTERPRISE CORPORATION (THE CORPORATION)

During the year, upon instructions from the Government, the Corporation transferred certain assets and liabilities to the Province of British Columbia. These transfers were charged against the Province's investment in the Corporation. The transferred assets included:

(i) loans made under the *Development Corporation Act* now in Loans, advances and other investments of the Province (Note 6);

(ii) proceeds from the sale agreement for the sale of False Creek Lands (the former Expo 86 site) during the year of $320 million and all of the Corporation's related rights, titles and benefits as follows:

- $50 million cash
- $270 million flow of payments to be received between 1995 and 2003. The present value of this has been determined to be $81.9 million, including $6.9 in interest income since the date of the sale, and is secured by a letter of credit.
- the right to receive further payments, referred to in the sale agreement as public participation funding, should future development of the Lands exceed a certain square footage of buildable floor space. The amount due from future public participation funding has been estimated to be $111 million, with a March 31, 1989 present value of $20 million. The collection of these payments is secured in part by a mortgage on certain lands and buildings included in the sale.

The $81.9 million and the $20 million totalling $101.9 million are included in the Mortgages receivable (Note 7).

The government intends to wind-up the operations of this Corporation in the subsequent fiscal year.

6. Loans, Advances and Other Investments

	In Thousands	
	1989	1988
	$	$
Low Interest Loan Agreement Revolving Fund Act	9,070	31,845
Homeowner Assistance Act	11,116	17,393
Ministry of Lands, Parks and Housing Act	4,308	12,467
Industrial Development Incentive Act	77,746	40,672
Industrial Development Fund Act	27,168	22,932
Crop Insurance Stabilization Act	13,700	15,200
Agricultural Land Development Act	15,199	16,047
Downtown Revitalization Act	15,274	17,568
Development Corporation Act (Note 5(d))	144,287	
Other	42,987	20,518
	360,855	194,642
Less provision for doubtful accounts	(66,827)	(31,615)
	294,028	163,027

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

7. Mortgages Receivable

	In Thousands	
	1989	1988
	$	$
Crown Land — Pursuant to the *Ministry of Lands, Parks and Housing Act*	31,199	31,013
False Creek Land Sale (Note 5(d))		
Note receivable	81,908	
Public participation funding agreement	20,000	
Provincial Home Acquisition — Pursuant to the *Provincial Home Acquisition Act, Home Purchase Assistance Act*, and the *Home Conversion and Leasehold Loan Act*	303,188	306,376
Other	806	1,140
	437,101	338,529
Less provision for doubtful accounts	(19,421)	(15,810)
	417,680	322,719

8. Fiscal Agency Loans

	In Thousands	
	1989	1988
	$	$
British Columbia Assessment Authority	4,830	4,331
British Columbia Buildings Corporation	210,400	154,693
British Columbia Educational Institutions Capital Financing Authority	15,932	19,385
British Columbia Enterprise Corporation		88,907
British Columbia Regional Hospital Districts Financing Authority	32,743	15,467
British Columbia Hydro and Power Authority	2,347,977	1,218,212
British Columbia Railway Company	73,742	73,939
British Columbia Steamship Company (1975) Ltd		8,572
British Columbia Systems Corporation	19,135	24,570
British Columbia Transit	873,703	835,028
Capital Project Certificate of Approval Program	134,797	90,021
Cariboo District	472	
Greater Vancouver Sewerage and Drainage District	28,265	29,095
Greater Vancouver Water District	19,883	19,750
Improvement Districts	1,509	746
Simon Fraser University	725	
Thompson-Nicola District	861	
University of British Columbia	43,860	40,502
University of Victoria	2,440	
	3,811,274	2,623,218

9. Other Assets

	In Thousands	
	1989	1988
	$	$
Prepaid Program Costs		
Guaranteed Available Income for Need Act (Introduction)		65,708
Medical Services Commission of British Columbia (Note 19)		37,755
Other ministerial prepayments	15,124	45,381
Unamortized issue costs of public debt	15,303	17,843
	30,427	166,687

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

10. Accounts Payable and Accrued Liabilities

	In Thousands	
	1989	1988
	$	$
Ministry trade accounts and other liabilities	760,507	567,936
Accrued interest on public debt	224,775	212,875
Accrued employee leave entitlements[1]	71,982	130,835
Forest Act, Section 88[2]	4,954	49,700
Government of Canada	21,456	31,449
	1,083,674	992,795

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[1] Reduction is primarily due to payout of early retirement incentive plan amounts, including related accrued leave entitlements.

[2] Credits issued under Section 88 were discontinued in October 1987.

11. Due to Crown Corporations, Agencies and Funds

	In Thousands	
	1989	1988
	$	$
Trust Funds	36,445	16,423
British Columbia Colleges and Institutes	12,346	11,923
British Columbia Enterprise Corporation		1,428
British Columbia Housing Management Commission	3,255	25
Legal Services Society	70	
Medical Services Commission of British Columbia	100,646	161,105
Simon Fraser University	1,860	1,766
University of British Columbia	5,723	4,942
University of Victoria	1,193	1,117
	161,538	198,729

12. Deferred Revenue

	In Thousands	
	1989	1988
	$	$
Motor vehicle licences and permits	64,565	85,322
Water rentals and recording fees	62,427	64,127
Petroleum, natural gas and minerals, leases and fees	23,660	23,569
Canada Assistance Plan (Introduction)		32,839
Medical Services Plan premiums (Note 19)	44,802	
Miscellaneous	57,322	49,656
	252,776	255,513

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31,1989 — Continued

13. Public Debt Issued for Government Purposes

In Thousands

		1989				1988	
	Year of Maturity	Canadian Dollar Debt $	U.S. Dollar Debt (CDN $) $	Total Canadian Dollars $	Weighted Average Coupon Rate Percent	Total Canadian Dollars $	Weighted Average Coupon Rate Percent
Short term promissory notes	1988–1989					207,394	
	1989–1990	150,100		150,100			
Treasury Bills	1988–1989					780,000	
	1989–1990	780,000		780,000			
Notes and bonds	1988–1989					162,394	11.04
	1989–1990	145,806	182,512	328,318	11.08	330,798	11.08
	1990–1991	705,127	558	705,685	9.69	705,705	9.70
	1991–1992	795,632	558	796,190	9.74	643,454	9.77
	1992–1993	350,500	558	351,058	8.37	337,077	8.41
	1993–1994	500,455	558	501,013	10.15	491,752	10.20
	1994–1999	1,281,609	16,773	1,298,382	9.06	1,298,957	9.06
	1999–2004	348,449		348,449	9.94	348,507	9.94
	2004–2009	60,058		60,058	11.60	60,058	11.60
	2009–2014	220		220	5.13	220	5.13
	2014–2015	51		51	5.13	51	5.13
		4,187,907	201,517	4,389,424	9.61	4,378,973	9.68
Total debt issued at face value		5,118,007	201,517 ($165,245 U.S.)	5,319,524		5,366,367	
Less :							
Sinking funds				(230,195)		(156,490)	
Subtotal				5,089,329		5,209,877	
Unamortized discount				(170,083)		(193,130)	
				4,919,246		5,016,747	

Notes outstanding at March 31, 1989 mature on April 3, 1989 at an annual average interest rate of 12.00%. During the year $575.3 million in notes were issued at interest rates which varied between 8.38% – 12.00%.

Treasury bills outstanding at March 31, 1989 mature at various dates to June 28, 1989 at an annual average interest rate of 11.60%. During the year, $3.12 billion in Treasury bills were issued at interest rates which varied between 8.60% – 12.27%.

The Province had 134 series of notes and bonds outstanding at March 31, 1989.

Included in notes and bonds payable in U.S. currency are Swiss Franc notes totalling 325 million Francs (1988: 325 million Francs) which have been fully hedged to $148.8 million U.S. (1988: $148.8 million U.S.). In October 1988, the $148.8 million U.S. was, in turn, fully hedged to $182 million Canadian through a currency exchange agreement.

Included in notes and bonds payable in Canadian currency are Japanese Yen notes totalling 31.1 billion Yen (1988: 31.1 billion Yen) which have been fully hedged to $220.7 million Canadian (1988: $220.7 million Canadian) through a currency exchange agreement.

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

	In Thousands	
	Canadian Funds $	U.S. Funds $
1990	208,274	149,536[1]
1991	755,118	687
1992	790,724	687
1993	372,417	687
1994	388,884	687

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[1] $148.8 million U.S. has been fully hedged to $182 million Canadian through a currency exchange agreement.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31,1989 — Continued

14. Public Debt to Finance Fiscal Agency Loans

In Thousands

		1989				1988	
	Year of Maturity	Canadian Dollar Debt $	U.S. Dollar Debt (CDN $) $	Total Canadian Dollars $	Weighted Average Coupon Rate Percent	Total Canadian Dollars $	Weighted Average Coupon Rate Percent
Short term promissory notes	1988–1989					1,032,954	
	1989–1990	2,223,109	26,764	2,249,873			
Notes and bonds							
	1988–1989					50,000	10.50
	1989–1990	294,863		294,863	11.21	294,863	11.21
	1990–1991	23,285		23,285	11.55	23,285	11.55
	1991–1992	171,090		171,090	10.22	171,090	10.22
	1992–1993	53,916		53,916	10.17	53,916	10.17
	1993–1994	18,613		18,613	11.38	13,743	12.69
	1994–1999	326,870		326,870	10.18	312,457	10.16
	1999–2004	10,000		10,000	11.65	10,000	11.65
	2004–2009	829,858		829,858	11.05	730,254	11.19
		1,728,495		1,728,495	10.82	1,659,608	10.87
Total debt issued at face value		3,951,604	26,764 ($22,200 U.S.)	3,978,368		2,692,562	
Less:							
Sinking funds				(76,706)		(43,057)	
Subtotal				3,901,662		2,649,505	
Unamortized discount				(88,604)		(26,287)	
				3,813,058		2,623,218	

Notes outstanding at March 31, 1989 mature at various dates to February 12, 1990 at an annual average interest rate of 11.48%. During the year $6.9 billion in notes were issued at interest rates which varied between 7.50% - 12.87%.

The Province had 49 issues of notes and debentures outstanding at March 31, 1989.

Included in notes and bonds payable in Canadian currency are Japanese Yen notes totalling 13.4 billion Yen (1988: 13.4 billion Yen) which have fully hedged to $82.9 million Canadian (1988: $82.9 million) through foreign currency exchange agreements.

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

	In Thousands Canadian Funds $
1990	325,205
1991	52,551
1992	173,856
1993	47,716
1994	33,914

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

15. Net Equity (Deficiency)

	In Thousands	
	1989	1988
	$	$
Net equity (deficiency) — beginning of year	(3,760,509)	(3,712,481)
Net revenue (expenditure) for the year	727,239	(48,028)
Net equity (deficiency) — end of year	(3,033,270)	(3,760,509)

Included in the net equity (deficiency) of these financial statements are $1,800 million set aside by special disposition of the Legislature for Special Funds (1988 – $743 million).

16. Expenditure by Group Account Classification

	In Thousands	
	1989	1988
	$	$
Grants and contributions	8,663,496	7,897,962
Salaries and benefits	1,105,958	1,272,552
Operating costs	1,229,610	1,013,209
Asset acquisitions	231,727	353,718
Other	1,025,894	848,475
Recoveries	(521,005)	(380,027)
	11,735,680	11,005,889

17. Contingencies and Commitments

(a) GUARANTEED DEBT

Guaranteed debt as at March 31, 1989 totalled $7.7 billion (1988 – $9.3 billion). Included in guaranteed debt is that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government under the authority of a statute as to net principal or redemption provisions. *See* Statement of Guaranteed Debt on page A37 of the Public Accounts for details.

(b) CONTINGENT LIABILITIES

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

The Government has a contingent liability in respect of the following summary of cases where the estimated or known claim is or exceeds $100,000:

- alleged conflict of interest with respect to corporate records; the amount claimed is $15 million;
- claims of $2.5 million for alleged negligence of ambulance drivers;
- claims of $4.7 million have been made regarding motor vehicle accidents;
- claims of $4.2 million have been made regarding contract disputes;
- claims totalling $18.6 million against assessments for social services tax;
- various claims totalling $9.2 million against assessments for motive fuel, hotel room, logging, mining and corporation capital taxes; and
- various legal actions totalling $4.7 million representing claims for damages to persons and property or other miscellaneous claims.

(ii) Other contingent liabilities

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in the statement of guaranteed debt. Because all other amounts are uncertain, no liability for them has been recorded in these financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

17. Contingencies and commitments — Continued

(c) COMMITMENTS

At the end of each year Government has a number of general commitments outstanding for ongoing programs and operations. Such future expenditures are charged to the appropriation in the year in which the work or service is performed.

Commitments totalled approximately:

	In Millions	
	1989	1988
	$	$
Capital Contracts	75	126
Operating Contracts	987	584
Operating Leases	36	40
	1,098	750

(d) SUPERANNUATION AND PENSION ACTUARIAL VALUATIONS

(i) The Government has statutory responsibilities, in the event of a deficiency existing between the money available for payment of superannuation allowances and the amounts necessary to meet the payment of these allowances, equal to:

- the amount of the deficiency in the case of the Public Service Superannuation Fund; and
- the amount specified by the Lieutenant Governor in Council in the case of the College Pension Fund.

(ii) The funds administered by the Superannuation Commission require that periodic actuarial valuations be performed for the purpose of assessing the adequacy of contribution rates and the financial position of the funds. The reporting of an unfunded liability by the actuary indicates that a deficiency of funds may arise in the future if the actions recommended by the actuary are not followed.

The unfunded liabilities as shown in the **latest actuarial valuations** for the above funds are provided for information purposes:

	In Thousands	
	Public Service Superannuation as at March 31, 1987	College Pension as at August 31, 1988
	$	$
Total actuarial liability	4,480,089	372,225
Less assets:		
Fund	(2,339,150)	(196,055)
Present value of future contributions	(1,684,877)	(146,356)
Unfunded liability	456,062	29,814

(iii) The Government also has statutory responsibility for any deficiency which arises between the money available in the Members of the Legislative Assembly Superannuation Account for the payment of superannuation allowances and the amounts necessary to meet the payment of such allowances. It is the practice of the government to fully fund such deficiencies at the time a Member or his surviving spouse becomes eligible and elects to receive an allowance. An actuarial valuation of the Account is not required by the *Legislative Assembly Allowances and Pension Act* and no such valuation has been performed.

See Section G of the Public Accounts for further details of these plans.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

18. Trust Funds

Amounts held and administered by the Government at the end of the fiscal year were comprised of the following:

	In Thousands	
	1989	1988
	$	$
Superannuation, Pension and Long-term Disability Funds[1] —administered by the Superannuation Commission	10,538,913	9,479,856
Sinking Funds[1,2] —administered by the Provincial Treasury	3,894,605	3,107,878
Investment Funds of Crown Corporations and Agencies —administered by Provincial Treasury	439,653	245,275
Public Trustee and Official Administrators —administered by government officials	277,989	255,284
Supreme and County Court Rules (Suitors' Funds) —administered by the Courts	78,514	75,316
Investment Funds of Workers' Compensation Board[1] —administered by the Workers' Compensation Board	2,931,735	2,718,955
Other Trust Funds —administered by various government officials	65,474	60,553
	18,226,883	15,943,117

Trust funds include amounts held and administered in trust, over which the Government has no power of appropriation.

Cash and investments of the Trust Funds are managed or held by Provincial Treasury, Ministry of Finance and Corporate Relations.

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[1] *See* Volume III of the Public Accounts for the latest audited financial statements of Superannuation and Pension Funds, the Workers' Compensation Board and most entities whose sinking funds are administered by Provincial Treasury.

[2] Sinking funds include investments held by Financing Authorities (which have essentially the same purpose as sinking funds) and the sinking funds relating to Public Debt as disclosed in Notes 13 and 14 of these financial statements.

19. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation. These reclassifications have had no effect on the operating results or fund balances as previously reported.

Beginning in fiscal 1988/89, Non-residential School Property Tax and Medical Services Plan premiums have been recorded as revenue of the Province. In prior years these amounts were recorded as recoveries of expenditures or revenue of an agency, respectively, in accordance with the presentation of the Estimates. For 1987/88 the amounts were $449,330,296 for Non-residential School Tax (property — business (school purposes)) and $421,154,000 for Medical Services Plan premiums. The affected comparative revenue and expenditure amounts have, therefore, been restated to include these amounts.

SUPPLEMENTARY STATEMENTS TO THE COMBINED FINANCIAL STATEMENTS
BUDGET STABILIZATION FUND STATEMENTS

BUDGET STABILIZATION FUND BALANCE SHEET AS AT MARCH 31,1989

	In Thousands	
	1989	1988
ASSETS	$	$
Due from the General Fund	1,491,152	742,905
	1,491,152	742,905
LIABILITIES AND NET EQUITY		
Net equity	1,491,152	742,905
	1,491,152	742,905

BUDGET STABILIZATION FUND STATEMENT OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR ENDED MARCH 31,1989

	In Thousands	
	1989	1988
REVENUE	$	$
Interest revenue	77,330	
Transfer from General Fund	591,917	717,377
Transfer from Lottery Fund Special Account	79,000	25,528
Net Revenue for the Year, to Net Equity	748,247	742,905

NOTES TO BUDGET STABILIZATION FUND FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31,1989

1. Significant Accounting Policies

(a) Reporting Entity

The Budget Stabilization Fund (the Fund) is a Special Fund, for purposes of the *Financial Administration Act*, established pursuant to the *Budget Stabilization Fund Act*. Its purpose is to assist in stabilizing the operating revenues of the Government. General Fund revenue, as specified by the Lieutenant Governor in Council, may be paid into the Fund, and Lottery Fund Special Account money may also be paid into the Fund, if authorized by the Lieutenant Governor in Council. Money may be paid out of the Fund into the General Fund, with the approval of the Lieutenant Governor in Council.

(b) Specific Policies

The Budget Stabilization Fund, as well as any other Special Funds, and the General Fund constitute the Government's Consolidated Revenue Fund, in accordance with section 9 of the *Financial Administration Act*. Therefore, the accounting policies applicable to the Government's Consolidated Revenue Fund, as specified in the Introduction to the Public Accounts, are the policies applicable to the Budget Stabilization Fund.

SUPPLEMENTARY STATEMENTS TO THE COMBINED FINANCIAL STATEMENTS
PRIVATIZATION BENEFITS FUND STATEMENTS

PRIVATIZATION BENEFITS FUND BALANCE SHEET
AS AT MARCH 31, 1989

	In Thousands 1989
ASSETS	$
Cash and temporary investments	296,210
Accounts receivable	1,429
Loans, Advances and other Investments	19,953
	317,592
LIABILITIES AND NET EQUITY	
Liabilities:	
Due to General Fund	9,017
Deferred revenue	57
	9,074
Net equity	308,518
	317,592

PRIVATIZATION BENEFITS FUND
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE FISCAL YEAR ENDED MARCH 31, 1989

	In Thousands 1989	
REVENUE	$	$
Interest from investments		12,928
Net Proceeds from Privatization Transactions		
British Columbia Hydro and Power Authority	220,270	
British Columbia Enterprise Corporation	43,163	
Highways Maintenance	37,295	
Forests — Nurseries	6,502	
Other	1,288	
		308,518
Total revenue		321,446
EXPENDITURE		
Payment to General Fund		12,928
Net Revenue for the year, to Net Equity		308,518

NOTES TO PRIVATIZATION BENEFITS FUND FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31,1989

1. Significant Accounting Policies

(a) Reporting Entity

The Privatization Benefits Fund is a Special Fund, for purposes of the *Financial Administration Act*, established pursuant to the *Privatization Benefits Fund Act*. Created as of April 1, 1988, its purpose is to hold in perpetuity the proceeds of assets disposed of through the privatization program, as specified by the Lieutenant Governor in Council, in order to produce revenue for the benefit of the Province. In accounting for the Privatization Benefits Fund, proceeds are defined as the proceeds of privatization transactions net of selling costs and any book value of the assets sold. Privatization transactions where selling costs and book value exceed the proceeds (losses on privatization) are not deducted from the Fund. Accrued earnings of the Fund are to be paid annually to the General Fund, to be used initially to reduce the deficit and thereafter for general program purposes.

(b) Specific Policies

The Privatization Benefits Fund, as well as any other Special Funds, and the General Fund constitute the Government's Consolidated Revenue Fund, in accordance with section 9 of the *Financial Administration Act*. Therefore, the accounting policies applicable to the Government's Consolidated Revenue Fund, as specified in the Introduction to the Public Accounts, are the policies applicable to the Privatization Benefits Fund.

2. Subsequent Events

The *Privatization Benefits Fund Act* was amended by the *Miscellaneous Statutes Amendment Act* (No. 1), 1989 in July 1989. This amendment allows the government to pay either all or part of the accrued earnings of the Privatization Benefits Fund to the General Fund, as and when directed by the Lieutenant Governor in Council.

CONSOLIDATED FINANCIAL STATEMENTS

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Legislative Assembly
Province of British Columbia

AUDITOR GENERAL

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AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have examined the consolidated balance sheet of the Government of the Province of British Columbia as at March 31, 1989, and the related statements of revenue and expenditure and changes in cash and temporary investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required.

I report in accordance with section 7 of the *Auditor General Act*. In my opinion, these consolidated financial statements present fairly the financial position of the Government as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies as set out in note 1 to these financial statements applied, after giving retroactive effect to the changes explained in the 1989 Changes in Accounting Policy section of the Introduction to the 1988/89 Public Accounts, on a basis consistent with that of the preceding year.

George L. Morfitt

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
August 31, 1989

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 1989

		In Thousands	
	Note	1989	1988
ASSETS		$	$
Cash and temporary investments	2	1,046,574	158,258
Accounts receivable	3	1,063,045	927,181
Inventories	4	126,480	118,809
Equity in government enterprises	5	1,802,494	1,959,817
Loans, advances and other investments	6	332,431	218,924
Mortgages receivable	7	421,366	326,723
Fiscal Agency loans	8	5,418,088	4,250,436
Other assets	9	45,722	186,562
		10,256,200	**8,146,710**
LIABILITIES AND NET EQUITY (DEFICIENCY)			
Liabilities:			
Accounts payable and accrued liabilities	10	1,352,913	1,244,162
Due to Crown corporations, agencies and funds	11	60,822	37,624
Deferred revenue	12	255,499	291,318
Public debt	13	10,879,524	9,775,837
		12,548,758	11,348,941
Net equity (deficiency)	14	(2,292,558)	(3,202,231)
		10,256,200	**8,146,710**
Fixed assets	Introduction		
Contingencies and commitments	15		

The accompanying notes and supplementary statement are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance and Corporate Relations:

P.G.Halkett

P. G. HALKETT
Deputy Minister of Finance and Corporate Relations

D. B. MARSON
Comptroller General

CONSOLIDATED STATEMENT OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR ENDED MARCH 31, 1989

	In Thousands	
	1989	1988
	$	$
REVENUE		
Taxation	6,981,682	6,199,817
Natural resources	1,271,117	1,222,966
Other	2,256,860	1,963,395
Contributions from Government enterprises	547,455	574,923
Contributions from the Federal Government	2,110,081	2,021,091
Recoveries	493,770	360,808
Total revenue	13,660,965	12,343,000
EXPENDITURE		
Health	3,980,704	4,059,764
Social services	1,378,164	1,322,842
Education	2,925,967	2,668,828
Protection of persons and property	496,420	451,539
Transportation	799,608	895,184
Natural resources and economic development	836,471	743,803
Other	564,978	518,191
Debt servicing	1,254,859	1,144,039
General government	664,541	595,727
Total expenditure	12,901,712	12,399,917
Net Operating Revenue (Expenditure) for the Year	759,253	(56,917)
NON-OPERATING TRANSACTIONS		
Accounting adjustment for recognition of grants paid for Social Assistance payments(Introduction)	(31,414)	
Increase in Unremitted Equity of Government Enterprises(Note 5)	181,834	127,615
Consolidated Net Revenue for the Year (Note 14)	**909,673**	**70,698**

The accompanying notes and supplementary statement are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN CASH AND TEMPORARY INVESTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989

	In Thousands	
	1989	1988
	$	$
OPERATING TRANSACTIONS		
Net revenue for the year	909,673	70,698
Non-cash items included in net expenditure		
Accounts receivable (increases)	(135,864)	(24,296)
Accounts payable increases	108,751	85,892
Equity in government enterprises decreases (increases)	157,323	(89,234)
Due to crown corporations, agencies and funds increases (decreases)	23,198	(175,529)
Cash items applicable to future operations	97,350	3,829
Cash obtained from (used for) operations	1,160,431	(128,640)
INVESTMENT TRANSACTIONS		
Loans, advances and other investments (issues)	(113,507)	(13,216)
Mortgages receivable (issues)	(94,643)	(22,830)
Cash (used for) investments	(208,150)	(36,046)
FINANCING TRANSACTIONS		
Increase in public debt issues	1,103,687	582,065
Less: Used for Fiscal Agency loans	(1,167,652)	(478,408)
Cash obtained from (used for) financing	(63,965)	103,657
Increase (decrease) in cash and temporary investments	888,316	(61,029)
Balance — Beginning of Year	158,258	219,287
Balance — End of Year	**1,046,574**	**158,258**

The accompanying notes and supplementary statement are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989

1. Significant Accounting Policies

(a) Reporting Entity

These financial statements include the accounts of the following entities which have been consolidated for reporting purposes:

(i) General Fund — it includes all transactions and balances of the Government not otherwise earmarked by legislative action, including the accounts of the British Columbia Liquor Distribution Branch, the Queen's Printer and the Purchasing Commission, special accounts and other statutory spending authorities;

(ii) Special Funds — these are comprised of all amounts set aside from the General Fund by special disposition of the Legislature;

(iii) Crown Service corporations — these are considered to be extensions of existing Government programs; and

(iv) certain Provincial corporations and agencies — considered to support existing Government programs.

Certain Crown corporations which have been identified as transportation and commercial enterprises, and which are intended to be run on commercial lines, are recorded in these financial statements on a modified equity basis. A schedule of entities recorded on a consolidated or modified equity basis may be found on C16.

The British Columbia Housing and Employment Development Financing Authority is not recorded in these financial statements because it is designed to finance housing and other capital projects managed by the private sector without any Provincial government funding. Also excluded are health and educational institutions which are legally distinct from Government and whose boards are required to report separately on their stewardship.

The Natural Gas Price Adjustment Fund, administered by British Columbia Petroleum Corporation, has not been consolidated, as the Fund is held for subsequent distribution to natural gas producers.

The Workers' Compensation Board of British Columbia has neither been consolidated nor recorded on an equity basis because it carries on a quasi-insurance activity funded by contributions from employers and it is not intended to be run on commercial lines. Similarly, the activities of the Insurance Corporation of British Columbia have neither been consolidated nor recorded on an equity basis because it operates as a self-sustaining entity.

Since the purpose of the British Columbia Assessment Authority is to establish and maintain uniform provincial assessments, largely for municipalities, it has neither been consolidated nor recorded on an equity basis in these financial statements.

Separate financial statements for entities which have been either consolidated or recorded on a modified equity basis in these financial statements are included in Section F of the Public Accounts.

(b) Principles of Consolidation

The accounts of the Crown Service and Provincial corporations and agencies are consolidated with the General Fund and Special Funds after adjusting them to conform with the accounting policies described below. Inter-company accounts and inter-fund revenue and expenditure transactions are eliminated upon consolidation.

The transportation and commercial enterprises, which maintain their accounts in accordance with accounting principles applicable to commercial entities, are included on a modified equity basis. Under this basis, the Government's investment in these enterprises is initially recorded at cost and adjusted annually to include the net earnings/losses and other net equity changes of the enterprises without adjusting them to conform with the accounting policies described below. Since the Government ensures the ongoing activities of these enterprises, full account is taken of losses in the investee companies, even where the cumulative losses exceed the original investment. Inter-company accounts and transactions are not eliminated. However, profit elements included in such transactions, including certain increases in contributed surplus, are eliminated.

No adjustments are made on consolidation to those consolidated entities whose fiscal year-ends are not the same as that of the Government, where the effect of adjustment would not be significant to the consolidated operating results.

(c) Basis of Accounting and Specific Policies

The basis of accounting, specific policies and 1989 changes in accounting policy, as stated in the Introduction to the Public Accounts, apply to the consolidated financial statements with the following amendments:

- Equity in Government Enterprises represents the Government's investment (including long-term advances) in those Crown corporations which have been identified as transportation and commercial enterprises at cost, adjusted for increases and decreases in the investees' net assets.
- The policies "Investment In and Amounts Due from Crown Corporations and Agencies" and "Revenues from Crown corporations" are not applicable.
- Public debt includes debt obligations of the consolidated Crown corporations, and Commitments include future obligations of all the consolidated entities.
- For these financial statements the gross basis of accounting is followed. In particular, recoveries are reported as revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

2. Cash and Temporary Investments

Included in temporary investments are units in the Province of British Columbia Pooled Investment Portfolios (established pursuant to the *Financial Administration Act*, section 36 (9) (a)) amounting to $1,164 million (1988 – $227 million).

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	978,276	116,351
Consolidated Crown corporations:		
British Columbia Buildings Corporation	11,000	
British Columbia Food Exhibitions Ltd.		440
British Columbia Health Care Research Foundation	8,697	2,754
British Columbia Heritage Trust	2,675	2,056
British Columbia Housing Management Commission	(723)	4,172
B.C. Pavilion Corporation	4,389	3,445
British Columbia Petroleum Corporation	5,753	7,144
British Columbia Systems Corporation	916	456
Creston Valley Wildlife Management Authority Trust Fund	86	44
Discovery Foundation	4,183	1,763
Health Facilities Association of British Columbia	3,801	1,850
Knowledge Network of the West Communications Authority		609
Legal Services Society	5,721	5,174
Medical Services Commission of British Columbia	7,163	7,065
Provincial Capital Commission	2,712	1,929
Science Council of British Columbia	11,925	3,007
	68,298	41,907
	1,046,574	158,258

3. Accounts Receivable

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	930,103	804,080
Consolidated Crown corporations:		
British Columbia Buildings Corporation	2,428	2,364
British Columbia Educational Institutions Capital Financing Authority	19,337	18,189
British Columbia Food Exhibitions Ltd.		466
British Columbia Health Care Research Foundation	4	11
British Columbia Housing Management Commission	8,629	2,826
B.C. Pavilion Corporation	1,791	1,608
British Columbia Petroleum Corporation	6,234	8,168
British Columbia Regional Hospital Districts Financing Authority	35,700	35,136
British Columbia School Districts Capital Financing Authority	49,158	47,957
British Columbia Systems Corporation	1,874	519
Creston Valley Wildlife Management Authority Trust Fund	8	8
Discovery Foundation	300	371
Health Facilities Association of British Columbia	134	135
Knowledge Network of the West Communications Authority		158
Legal Services Society	433	255
Medical Services Commission of British Columbia	3,710	4,625
Provincial Capital Commission	36	57
Provincial Rental Housing Corporation	115	115
Science Council of British Columbia	3,051	133
	132,942	123,101
	1,063,045	927,181

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

4. Inventories

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	126,450	118,786
Consolidated Crown corporations:		
Creston Valley Wildlife Management Authority Trust Fund	19	14
Provincial Capital Commission	11	9
	126,480	118,809

5. Equity in Government Enterprises

	In Thousands			
	1989			1988
	Investment $	Unremitted Earnings $	Total $	Total $
Transportation				
British Columbia Ferry Corporation		161,468	161,468	146,360
British Columbia Railway Company	267,923	564,790	832,713	782,531
British Columbia Steamship Company (1975) Ltd		(4,335)	(4,335)	9,049
British Columbia Transit		107,169	107,169	107,379
Pacific Coach Lines Limited		42	42	87
	267,923	829,134	1,097,057	1,045,406
Commercial				
British Columbia Hydro and Power Authority	8,091	669,141	677,232	582,894
Housing Corporation of British Columbia		4,650	4,650	4,316
British Columbia Enterprise Corporation	2,751	20,804	23,555	327,201
	10,842	694,595	705,437	914,411
	278,765	1,523,729	1,802,494	1,959,817
1988 Comparatives	617,922	1,341,895	1,959,817	

Unremitted earnings increased from $1,341,895 in 1987/88 to $1,523,729 in 1988/89 for an increase of $181,834.

6. Loans, Advances and Other Investments

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	294,028	163,027
Consolidated Crown corporations:		
British Columbia Petroleum Corporation	36,016	53,241
Knowledge Network of the West Communications Authority		538
Creston Valley Wildlife Management Authority Trust Fund	165	264
Discovery Foundation	2,222	1,854
	38,403	55,897
	332,431	218,924

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

7. Mortgages Receivable

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	417,680	322,719
Consolidated Crown corporations:		
Health Facilities Association of British Columbia	3,686	4,004
	421,366	326,723

8. Fiscal Agency Loans

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	3,532,570	2,409,103
Consolidated Crown corporations:		
British Columbia Educational Institutions Capital Financing Authority	374,964	359,959
British Columbia Regional Hospital Districts Financing Authority	701,864	655,512
British Columbia School Districts Capital Financing Authority	808,690	825,862
	1,885,518	1,841,333
	5,418,088	4,250,436

9. Other Assets

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	18,170	128,932
Consolidated Crown corporations:		
British Columbia Buildings Corporation	1,370	2,699
British Columbia Food Exhibitions Ltd		3
British Columbia Housing Management Commission	1,843	851
B.C. Pavilion Corporation	407	385
British Columbia Petroleum Corporation	7,732	33,124
British Columbia Regional Hospital Districts Financing Authority	4,559	5,144
British Columbia School Districts Capital Financing Authority	10,121	14,454
British Columbia Systems Corporation	1,383	633
Creston Valley Wildlife Management Authority Trust Fund	5	6
Discovery Foundation	38	39
Knowledge Network of the West Communications Authority		166
Legal Services Society	72	73
Provincial Capital Commission	19	35
Provincial Rental Housing Corporation		16
Science Council of British Columbia	3	2
	27,552	57,630
	45,722	186,562

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

10. Accounts Payable and Accrued Liabilities

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	1,072,503	974,329
Consolidated Crown corporations:		
British Columbia Buildings Corporation	27,892	37,452
British Columbia Educational Institutions Capital Financing Authority	18,274	17,176
British Columbia Food Exhibitions Ltd		30
British Columbia Health Care Research Foundation	16	12
British Columbia Heritage Trust	96	27
British Columbia Housing Management Commission	5,694	4,468
B.C. Pavilion Corporation	4,415	3,652
British Columbia Petroleum Corporation	2,167	8,969
British Columbia Regional Hospital Districts Financing Authority	36,583	34,578
British Columbia School Districts Capital Financing Authority	48,672	47,471
British Columbia Systems Corporation	16,818	5,420
Creston Valley Wildlife Management Authority Trust Fund	12	7
Discovery Foundation	607	480
Health Facilities Association of British Columbia	110	54
Knowledge Network of the West Communications Authority		540
Legal Services Society	3,970	4,068
Medical Services Commission of British Columbia	113,570	104,035
Provincial Capital Commission	125	113
Provincial Rental Housing Corporation	1,188	1,170
Science Council of British Columbia	201	111
	280,410	269,833
	1,352,913	1,244,162

11. Due to Crown Corporations, Agencies and Funds

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	60,822	37,624

12. Deferred Revenue

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	252,776	255,513
Consolidated Crown corporations:		
British Columbia Food Exhibitions Ltd		571
British Columbia Housing Management Commission	283	325
B.C. Pavilion Corporation	1,907	1,794
British Columbia Systems Corporation	345	553
Discovery Foundation	87	190
Knowledge Network of the West Communications Authority		89
Medical Services Commission of British Columbia		32,283
Science Council of British Columbia	101	
	2,723	35,805
	255,499	291,318

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

13. Public Debt

	In Thousands	
	1989	1988
	$	$
Consolidated Revenue Fund	8,730,281	7,637,883
Consolidated Crown corporations:		
British Columbia Buildings Corporation	216,012	228,996
British Columbia Educational Institutions Capital Financing Authority	361,055	342,656
British Columbia Regional Hospital Districts Financing Authority	723,360	693,803
British Columbia School Districts Capital Financing Authority	782,311	803,817
British Columbia Systems Corporation	21,185	22,693
Discovery Foundation		394
Provincial Rental Housing Corporation	45,320	45,595
	2,149,243	2,137,954
	10,879,524	9,775,837

Details of the various terms of repayment for the Consolidated Revenue Fund are available in Notes 13 and 14 to the Combined Financial Statements. Similarly, details of repayment for the Consolidated Crown corporations are available in the financial statements of each consolidated entity. *See* Section F of the Public Accounts for the Crown corporations' financial statements.

14. Net Equity (Deficiency)

	In Thousands	
	1989	1988
	$	$
Net equity (deficiency) - beginning of year	(3,202,231)	(3,272,929)
Net revenue (expenditure) for the year	909,673	70,698
Net equity (deficiency) - end of year	(2,292,558)	(3,202,231)

Included in the net equity (deficiency) of these financial statements are $1,800 million set aside by special disposition of the Legislature for Special Funds (1989 - $743 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

15. Contingencies and Commitments

(a) Guaranteed Debt

Guaranteed debt as at March 31, 1989 totalled $5.4 billion (1988 – $7.6 billion). Included in guaranteed debt is that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions.

(b) Contingent Liabilities

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

- **Consolidated Revenue Fund** — The total claimed in specific legal actions, where the estimated or known claim is or exceeds $100,000, amounts to approximately $59 million. See Note 17 to the Combined Financial Statements for details.
- **Consolidated Crown corporations** — Medical Services Commission of British Columbia: In the 1988/89 fiscal year an action was commenced by physicians in the section of Emergency Medicine of the British Columbia Medical Association claiming damages, together with interest and costs, for payments allegedly witheld by the Commission. The amount of the damages is not stated in the Writ of Summons served on the Commission. It is the opinion of the Commission's management and its legal counsel that the physicians have no cause of action.

(ii) Other contingent liabilities

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in guaranteed debt. Because all other amounts are uncertain, no liability for them has been recorded in these financial statements.

(c) Commitments

At the end of each year there are a number of general commitments outstanding for ongoing programs and operations. Such future expenditures of fully consolidated entities are recorded as a charge in the year in which the work or service is performed.

Commitments totalled approximately:

	In Millions	
	1989	1988
	$	$
Capital Contracts	183	150
Operating Contracts	1,006	593
Operating Leases	203	213
	1,392	956

For those entities reported on the modified equity basis, capital contract commitments totalled approximately $30 million (1988 - NIL) and commitments under operating leases totalled approximately $80 million (1988 – $97 million).

(d) Superannuation and Pension Actuarial Valuation

(i) The Government has statutory responsibilities, in the event of a deficiency existing between the money available for payment of superannuation allowances and the amounts necessary to meet the payment of these allowances, equal to:

- the amount of the deficiency in the case of the Public Service Superannuation Fund; and
- the amount specified by the Lieutenant Governor in Council in the case of the College Pension Fund.

(ii) The funds administered by the Superannuation Commission require that periodic actuarial valuations be performed for the purpose of assessing the adequacy of contribution rates and the financial position of the funds. The reporting of an unfunded liability by the actuary indicates that a deficiency of funds may arise in the future if the actions recommended by the actuary are not followed.

The unfunded liabilities as shown in the **latest actuarial valuations** for the above funds are provided for information purposes:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1989 — Continued

15. Contingencies and Commitments — Continued

	In Thousands	
	Public Service Superannuation as at March 31, 1987	College Pension as at August 31, 1988
	$	$
Total actuarial liability	4,480,089	372,225
Less assets:		
Fund	(2,339,150)	(196,055)
Present value of future contributions	(1,684,877)	(146,356)
Unfunded liability	456,062	29,814

(iii) The Government also has statutory responsibility for any deficiency which arises between the money available in the Members of the Legislative Assembly Superannuation Account for the payment of superannuation allowances and the amounts necessary to meet the payment of such allowances. It is the practice of the government to fully fund such deficiencies at the time a Member or his surviving spouse becomes eligible and elects to receive an allowance. An actuarial valuation of the Account is not required by the *Legislative Assembly Allowances and Pension Act* and no such valuation has been performed.

See Section G of the Public Accounts for further details of these plans.

16. Trust Funds

Amounts held and administered in trust by the Government at the end of the fiscal year totalled $18,227 million (1988-$15,943 million). *See* Note 18 to the Combined Financial Statements for details.

17. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation. These reclassifications have had no effect on the operating results or fund balances as previously reported.

Beginning in fiscal 1988/89, Non-residential School Property Tax and Medical Services Plan premiums have been recorded as revenue of the Province. In prior years these amounts were recorded as recoveries of expenditures or revenue of an agency, respectively, in accordance with the presentation of the Estimates. For 1987/88 the amounts were $449,330,296 for Non-residential School Tax (property — business(school purposes)) and $421,154,000 for Medical Services Plan premiums. The affected comparative revenue and expenditure amounts have been restated to include these amounts.

In prior years, recoveries of expenditure were netted against expenditures. Commencing in 1988/89, expenditure recoveries are reported as revenue in these financial statements. In addition, changes in provisions for doubtful accounts that were formerly netted against revenue are now reported as expenditures. The British Columbia Liquor Distribution Branch operating costs, which were previously netted against Branch revenue, are now reported as expenditures. The effect of these 1988/89 reclassifications was to increase revenue and expenditure by $649 million (1988 – $497 million).

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF ENTITIES RECORDED ON A CONSOLIDATED OR MODIFIED EQUITY BASIS
FOR THE FISCAL YEAR ENDED MARCH 31, 1989

CROWN SERVICE CORPORATIONS RECORDED ON CONSOLIDATED BASIS

British Columbia Buildings Corporation
British Columbia Systems Corporation

PROVINCIAL CORPORATIONS AND AGENCIES RECORDED ON CONSOLIDATED BASIS

British Columbia Educational Institutions Capital Financing Authority
British Columbia Health Care Research Foundation
British Columbia Heritage Trust
British Columbia Housing Management Commission
B.C. Pavilion Corporation
British Columbia Petroleum Corporation (reported by Petroleum Corporation Fund)
British Columbia Regional Hospital Districts Financing Authority
British Columbia School Districts Capital Financing Authority
Creston Valley Wildlife Management Authority Trust Fund
Discovery Foundation
Health Facilities Association of British Columbia
Legal Services Society
Medical Services Commission of British Columbia
Provincial Capital Commission
Provincial Rental Housing Corporation
The Science Council of British Columbia and Secretariat on Science, Research and Development (Science Council of British Columbia)

TRANSPORTATION COMPANIES AND COMMERCIAL ENTERPRISES RECORDED ON MODIFIED EQUITY BASIS

British Columbia Enterprise Corporation
British Columbia Ferry Corporation
British Columbia Hydro and Power Authority
British Columbia Lottery Corporation
British Columbia Railway Company
British Columbia Steamship Company (1975) Ltd.
British Columbia Transit
Housing Corporation of British Columbia
Pacific Coach Lines Limited